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Director



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To: Michael Marshall, Secretary of the Senate
Margaret Thomson, Chief Clerk of the House

From: Mark Schuling, Director, Iowa Department of Revenue

Regarding: Report on Progress in Developing a System to Track and Analyze Tax Credits

Date: December 30, 2005

As required by 2005 Iowa Acts, House File 810, page 17, lines 26 through 29, the Iowa Department of Revenue has prepared this report documenting progress in developing a system to track and analyze tax credits. As required by Section 7A.11A, Code of Iowa, one printed copy and one electronic copy are delivered to the Secretary of the Senate and the Chief Clerk of the House.



Progress Report

Progress on Developing the Tax Credits Tracking and Analysis System

(pursuant to 2005 Iowa Acts, House File 810, page 17, lines 26 through 29)

December 2005

Executive Summary

Reflecting a desire for greater accountability for tax credit programs, the Iowa General Assembly created a new appropriation during its 2005 session to fund the creation of an integrated Tax Credits Tracking and Analysis System.

Many of the programs that are funded through the use of tax credits have annual reporting requirements. The reporting requirements, however, are not consistent across all programs. There is currently no means to efficiently match information related to the awarding and the exercise of tax credits. These deficiencies in existing monitoring and reporting systems make it difficult to account for the amounts of state tax revenue foregone because of the different types of tax credits. Evaluating the effectiveness of the tax credit programs in promoting the goals for which they were created is even more difficult.

The focus of the Tax Credits Tracking and Analysis System is on creating a central repository of information concerning the awarding, usage, and effectiveness of tax credits. Limited information currently available makes it difficult for policymakers to ensure that programs that are in demand and effective are continued while programs that are not in demand or are ineffective are not continued. The Tax Credits Tracking and Analysis System is intended to provide information useful for making these choices.

The creation of the Tax Credit Tracking and Analysis System was seen as a collaborative effort. The Department of Revenue is facilitating a variety of work groups tackling the issues associated with developing the system. These teams have participants from a variety of agencies, including agencies that award credits, agencies that review and authorize credit usage, and agencies that have resources useful in evaluating the effectiveness of tax credits.

These groups first set out to study the problem by creating a Tax Credit User's Manual and mapping the current system for managing tax credits. A Kaizen Event, a technique used to study and improve a management process, was held during October. Since the Kaizen, several work groups have been meeting to tackle issues related to designing the database, setting up tracking for credits that are transferred or issued to pass-through entities, and reporting desired from the system. These activities will continue as the information system is being built. Furthermore, teams working on improving tax forms and program applications and developing evaluation methodologies will begin their work soon.

The Tax Credits Tracking and Analysis System will have three key types of reports as system outputs:

- Annual Status Reports
- Forecast/Contingent Liability Reports
- Program Evaluation Reports

The annual status reports will combine information on the awarding and usage of credits for covered credits. The forecast or contingent liability reports will provide information that will be useful for revenue estimation and budget planning. Program evaluation reports will examine the effectiveness of tax credit programs in meeting their stated goals and in enhancing the economy of the state and its quality of life.

The goal is to have the database ready to be populated by the end of FY 2006. Other key points in the timeline over the next year include developing prototype evaluation reports by July 2006, creating new forms and applications by August 2006, and using information from the system to improve forecasting for the Revenue Estimating Conference in December 2006. The first preliminary status reports and program effectiveness evaluations are expected to be available to the Legislature by the end of December 2006.

Overview

Like many other states, Iowa offers tax credits as a means of promoting economic development activities, job training, and to provide assistance to certain types of individual taxpayers. Iowa provides tax credits for purposes ranging from encouraging businesses to hire disabled individuals to restoring historic buildings to promoting the increased use of ethanol based motor fuels. In some cases these credits are made available to every business or individual satisfying specific statutory eligibility criteria, while in other cases they are awarded competitively or on a first-come, first-serve basis.

A number of state government departments have responsibility for the awarding of tax credits. These include the Department of Economic Development, the Department of Cultural Affairs, the Iowa Utilities Board, and the Department of Revenue. In addition, the state's community colleges provide administrative oversight for a number of job training programs that are funded by tax credits. The Department of Education, the Department of Workforce Development, and the Department of Revenue collect information used to monitor the performance of tax credit program beneficiaries.

Many of the programs that are funded through the use of tax credits have annual reporting requirements. The reporting requirements, however, are not consistent across all programs. There is currently no means to efficiently match information related to the awarding and the exercise of tax credits. These deficiencies in existing monitoring and reporting systems make it difficult to account for the amounts of state tax revenue foregone because of the different types of tax credits. Evaluating the effectiveness of the tax credit programs in promoting the goals for which they were created is even more difficult.

Reflecting a desire for greater accountability for tax credit programs, the Iowa General Assembly created a new appropriation during its 2005 session to fund the creation of an integrated Tax Credits Tracking and Analysis System.

Background

There are four major types of tax preferences: credits, deductions, exclusions and exemptions. Tax credits reduce tax liability on a dollar-for-dollar basis. Tax deductions reduce taxable income, resulting in a lower tax liability. Tax exclusions are amounts that are excluded from tax liability. Tax exemptions are when all or part of taxes that would ordinarily be collected on an activity are foregone.

In 2000, the Iowa Department of Revenue compiled a "tax expenditure study." This study identified 280 tax expenditures, including credits, deductions, exclusions, and exemptions. The study covered four taxes: corporate income, individual income, sales and use taxes. Of these 280 tax expenditures, dollar impact estimates were presented separately or in combination for 218 tax expenditures. The final result was a total of 180 dollar estimates. The total dollar impact of all tax expenditures if each is considered separately was \$3.86 billion for calendar year 2000.

The Tax Credits Tracking and Analysis System is more focused than the tax expenditure study. The focus of the Tax Credits Tracking and Analysis System is on creating a central repository of information concerning the awarding, usage, and effectiveness of tax credits.

Based on tax expertise within the Department of Revenue and input from a variety of other agencies, a list of tax credit programs that will be included in the Tax Credits Tracking and Analysis System was developed. Some credits were excluded because they were primarily administrative in nature, such as the non-resident and part-year resident credits, minimum tax credit, franchise tax credit, alternative minimum tax credit and claim of right credit. The remaining 26 credits can be divided into two main groups: automatic credits that are available to any eligible taxpayer who claims the credit on appropriate tax forms and awarded credits that require specific action by the agency that administers the particular tax credit program. The list of 26 tax credit programs is included in Appendix A.

Current Accounting for Tax Credits

The dollars associated with tax credits in Iowa are substantial. Although the total impact of tax credits on state tax revenues is currently unknown, it is possible to provide a partial accounting. Credits for which data are available are included in Table 1. The Iowa Individual Income Tax return has two lines that bundle multiple credits as either “Other Iowa Credits” or “Other Refundable Credits.” In recent years, the amount of tax credits claimed on these lines has grown. “Other Iowa Credits,” which are non-refundable, have increased from \$19.4 million in 1999 to \$46.4 million in 2003, an increase of 139 percent. “Other Refundable Credits” have increased from \$0.9 million in 1999 to \$4.6 million in 2003, an increase of 411 percent.

The Iowa Corporate Income Tax return has three credits included in the system that can be identified. The Motor Vehicle Fuel Tax Credit increased from \$832,000 in 1999 to \$898,000 in 2003, an increase of 8 percent. The Iowa New Jobs Credit increased from \$2.39 million in 1999 to \$2.40 million in 2003, an increase of 0.4 percent. The research activities credit increased from \$13.1 million in 1999 to \$31.8 million in 2003, an increase of 143 percent.

Table 1. Statistics for Tax Credits With Data Available, 1999-2003

Individual Income Tax	1999	2000	2001	2002	2003
Child and Dependent Care Credit*	\$6,794,182	\$6,396,628	\$6,236,660	\$6,160,402	\$8,354,236
Earned Income Credit	\$6,012,230	\$6,142,575	\$6,504,698	\$8,304,908	\$8,534,620
Tuition and Textbook Credit	\$10,478,095	\$11,453,549	\$12,379,883	\$13,138,193	\$13,773,040
Other Iowa Credits	\$19,403,717	\$23,228,165	\$24,668,908	\$42,394,881	\$46,389,148
Other Refundable Credits*	\$867,641	\$1,058,729	\$1,620,306	\$2,707,360	\$4,564,048
Total of Selected Individual Credits	\$43,555,865	\$48,279,646	\$51,410,455	\$72,705,744	\$81,615,092
Corporate Income Tax	1999	2000	2001	2002	2003
Motor Vehicle Fuel Credit*	\$831,659	\$775,255	\$724,857	\$758,395	\$898,482
Iowa New Jobs Credit	\$2,389,148	\$1,833,421	\$1,875,350	\$2,242,601	\$2,399,543
Research Activities Credit*	\$13,073,934	\$25,262,452	\$25,036,536	\$27,620,501	\$31,764,690
Total of Selected Corporate Credits	\$16,294,741	\$27,871,128	\$27,636,743	\$30,621,497	\$35,062,715

* Indicates that credit is refundable.

Source: Iowa Department of Revenue, Tax Research and Program Analysis Section.

Based on reports received by the Department of Revenue from Iowa's Community Colleges, the withholding tax revenues diverted as part of the Iowa New Jobs Training (260E) Program can be identified. In calendar year 2003, the amount was \$38.0 million. For calendar year 2004, the amount increased to \$40.1 million, an increase of 5.6 percent over 2003. For the most recent four quarters (ending in third quarter 2005), the amount was \$42.6 million, an increase of 6.1 percent over all of 2004.

Tax Credits Tracking and Analysis System

The purpose of the Tax Credits Tracking and Analysis System is to address a variety of information deficiencies. These deficiencies make it difficult to get an accurate picture of the role that tax credits play in providing incentives for particular types of desirable behavior or creating desirable outcomes for Iowans. In order to be successful, the system will need to overcome a number of challenges, which include the following:

- There is no central repository where interested parties (i.e., the Legislature, media, citizens, etc.) can have access to accurate, system-wide data on tax credits awarded by the State of Iowa.
- Current tax forms may provide only one line on which taxpayers enter multiple credits. As a result, it is impossible to differentiate one credit from another without asking the taxpayer for additional information.
- Credits that have their own line on tax forms may not be entered into the Department of Revenue computer information systems.

- There is no formal mechanism for feedback between the Department of Revenue and the agencies that award credits, particularly in terms of linking tax credits awards to claims for tax credits on tax returns.
- There has been no attempt made at the evaluation of the relative effectiveness of State of Iowa tax credit programs.
- The number of tax credit programs has increased in recent years, increasing the complexity of understanding tax credits in Iowa and how they may interact with other programs.
- More credits are being made transferable, making it more difficult to ensure that taxpayers claiming credits are entitled to claim them.
- Credits earned by partnerships and limited liability entities pass through credits to their owners, further increasing the difficulty of tracking eligibility to claim credits.
- Tax credits are being allowed to reduce tax liabilities against more types of taxes, such as the franchise tax and insurance premiums tax.

The dollars associated with tax credits are substantial and expanding. As such, the Tax Credits Tracking and Analysis System can play a valuable role in allocating scarce resources. An objective of the system is to develop the analytical tools needed to measure return on investment. Furthermore, the analysis of tax credits will attempt to identify to what extent credit usage generates economic growth and, consequently, additional tax revenues or other benefits.

With the information from the system, policymakers can ensure that programs that are in demand and effective are continued while programs that are not in demand or are ineffective are not continued. The limited information currently available makes these choices difficult. For example, the Department of Economic Development administers an “Assistive Device Credit.” The purpose of the program is to encourage employers to make workplace modifications for individuals with disabilities. Department of Economic Development records show only one award made under the program since its inception. The Tax Credits Tracking and Analysis System is intended to provide information useful for making these choices.

Creation of “Tax Credits User’s Manual”

One of the activities undertaken in preparation for developing the Tax Credits Tracking and Analysis System was documenting the attributes of each of the credits to be included in the system. The “Tax Credits User’s Manual” is attached to this report in Appendix B. Key attributes of each credit include:

- Code and administrative rules citations,
- Program description,
- How the credit is awarded,
- Who awards the credit,
- Taxes to which the credit applies,
- Certification requirements,
- Credit limits,
- Transferability provisions,
- Refundability provisions,

- Claim filing requirements, and
- Performance monitoring requirements.

Another document summarizes some key features of all tax credits in one page. The Credit Features Matrix, included in Appendix C, lists all credits and the programs they are available under and describes whether they are capped, refundable, transferable, and several other features.

State Agency Collaboration

The creation of the Tax Credit Tracking and Analysis System was seen as a collaborative effort. The changes required to develop a useful system necessitate input from many stakeholders. One of the first activities undertaken for the project was the development of an Inter-Agency Work Group. This group was formed to coordinate the efforts of various state agencies and build consensus on the direction of the project in order to ensure that the system provided meaningful information resources for multiple stakeholders.

The Tax Credit Tracking and Analysis System also needs coordination for changes internal to the Department of Revenue. An Internal Work Group was established within the Department of Revenue to determine how best to implement internal changes required for the system. Types of internal changes that will be required to implement the system include:

- The development of new forms to allow the capture of information by credit,
- Adjustments to return processing operations,
- Adjustments to return review procedures, and
- Re-design of computer information systems.

Participation in these work groups is intended to cover the spectrum of activities related to the awarding, usage, and effectiveness of tax credits.

Agencies that award credits:

- Department of Cultural Affairs,
- Department of Economic Development
- Department of Revenue
- Iowa Capital Investment Board
- Iowa's Community Colleges
- Iowa Utilities Board.

Agencies that review and authorize credit usage:

- Department of Revenue
- Insurance Commission

Agencies that have resources useful in evaluating the effectiveness of tax credits:

- Department of Education
- Department of Revenue
- Department of Workforce Development
- Iowa's public universities and community colleges.

All of the participating agencies have shown commitment to the project because of the value additional information will have within individual agencies, as well as the potential this information will have throughout state government.

Kaizen Event

In late October, all members of the Inter-Agency Work Group and the Revenue Work Group came together for a Kaizen Event. The Kaizen Event took the group through a series of exercises over three days focused on developing a new and improved process of tracking tax credits in Iowa. Exercises included:

1. Map the Existing Process
2. Brainstorm Ideas for the New Process
3. Prioritize Ideas Based on Impact and Difficulty of Implementation
4. Map the New Process Based on Agreed-Upon Priorities
5. Create Teams to Deal with Key Unsolved Issues
6. Develop a Timeline

Mapping the existing process enabled the group to identify points at which there are bottlenecks or communication gaps. For example, when the Department of Revenue is processing a return, there may be no way to easily validate whether the taxpayer is eligible to exercise a tax credit. This and other information shortcomings build inefficiencies into the system.

Mapping the existing process also highlighted the complexity and inconsistencies of the system as a whole. Some tax credits require a tax credit certificate to be attached to the tax form on which the credit is claimed, while others do not. Some tax credit programs offer multiple credits, while others only offer one credit. Some tax credits are transferable, while others are not. Some tax credits are capped, while others are not. Among capped credits, some credits are awarded on a first-come, first served basis, while others award pro-rated amounts of the cap to all eligible applicants. Some credits have calendar year limits, while others have fiscal year limits. Some credits have annual limits, while other credits have multi-year limits.

Once the group understood the current system, it began brainstorming ideas for the new process. This exercise allowed the group to envision key features of the ideal system of tracking tax credits. Some of the ideas are easily in reach, such as having tax credit certificates (whether paper or electronic) for all tax credit awards. Others would be much more difficult, such as understanding the interaction of multiple tax credit programs on one project.

Each of the ideas created during the brainstorming exercise was prioritized based on the impact on the system and the difficulty of implementation. This exercise focused the group on features of a system that will have high impact and relatively low difficulty of implementation. The group came up with alternative ideas for how to implement each of the prioritized ideas.

The Group mapped the new process based on identified priority ideas. Major changes included bringing the Department of Revenue into the process up front by including electronic tax credit certificate numbers in the Tax Credits Tracking and Analysis System database. In the future, when a tax return comes in with a tax credit, the system will allow immediate verification of authenticity.

Action Plan

The action plan developed at the Kaizen identified major areas where significant progress needed to be made. It also included an issue team for each of these major areas. Each issue team is responsible for developing that aspect of the system. There are five issue teams:

- Program Application and Tax Form Design and Development
- Tracking Transfers and Pass-Throughs
- Database Definition
- Prototype Report Development
- Evaluation Methodologies

The Database Definition Team has already met several times and is serving as a key resource for the programmer that is developing key database architecture for the system. A preliminary diagram of the basic structure of the database is included in Appendix D. This group has identified some key issues that will need to be dealt with for the system to be successful, such as:

- Protecting the security of confidential data
- Choosing an identifier that will follow through the entire process
- Building a low maintenance and flexible reporting tool
- Data communication and documentation
- Potential changes that may be necessary in current agency operations.

The Tracking Transfers and Pass-Throughs Team has also met to discuss improvements to current procedures. The Reports Team has met to discuss reports the system needs to be able to generate. Other teams will meet once other priority tasks have been accomplished.

Tax Credit Tracking and Analysis System Outputs

The Tax Credits Tracking and Analysis System will focus on three key types of reports as system outputs:

- Annual Status Reports
- Forecast/Contingent Liability Reports
- Program Evaluation Reports

The annual status reports will combine information on the awarding and usage of credits for covered credits. Current annual status reports only provide award amounts and typically are done on a program-by-program basis. This report will be system-wide.

The forecast or contingent liability reports will provide information that will be useful for a variety of purposes. It will be useful for revenue estimation and budget planning. It will also be useful for members of the Revenue Estimating Conference. These reports could be provided on a quarterly basis.

Program evaluation reports will examine the effectiveness of tax credit programs in meeting their stated goals. Currently, not all programs have their effectiveness evaluated. Those that do have

evaluations often use inconsistent methodologies. A goal of the system is to harmonize effectiveness evaluations of tax credits in Iowa.

The evaluation reports will also investigate how the programs studied affect the economy of the state and its quality of life. Issues that will be investigated include:

- Impacts on employment, wages and personal income,
- Impacts on private sector investment and property values,
- Impacts on retail trade and tourism,
- Impacts on local communities, and
- Impacts on state tax revenues.

The system will allow flexible access to tax credit data, within applicable security protocols, allowing authorized staff to conduct other studies as needed.

Timeline

The attendees of the Kaizen developed a preliminary timeline. The first point in the timeline was completed with this progress report by December 31, 2005. Another key point in the timeline comes on June 30, 2006, when the database needs to be ready to be populated. A final key point in the timeline comes on December 31, 2006, when the first status report is issued to the Legislature. The full timeline is included in Appendix E.

Potential Statutory Changes Needed

Participants agreed that the ability to track the transfer of tax credits certificates would be improved by centralizing the issuance of transferred tax credit certificates at the Department of Revenue. This change would allow data on transfers to be captured immediately. Of the five programs that allow tax credit certificates to be transferred, the Department of Revenue already issues certificates for three programs. This change would only affect the remaining two credits. This proposed change is included in the Department of Revenue technical bill that will be offered for consideration during the 2006 legislative session.

Tax Credit Tracking and Analysis System Covered Programs

Tax Credit Program	Usage Type	Awarded by:
Child and Dependent Care Credit	Automatic	NA
Cow-Calf Credit	Automatic	NA
Earned Income Credit	Automatic	NA
Ethanol Blended Gasoline Credit	Automatic	NA
Motor Vehicle Fuel Tax Credit	Automatic	NA
Research Activities Credit (not doubled)	Automatic	NA
S Corporation Credit	Automatic	NA
Soy-Based Cutting Tool Oil Credit	Automatic	NA
Tuition and Textbook Credit	Automatic	NA
Accelerated Career Education (ACE) Program (260G)	Awarded	Community Colleges
Iowa New Jobs Training Program (260E)	Awarded	Community Colleges
Historic Preservation & CED Tax Credit	Awarded	DCA
Assistive Device Credit	Awarded	DED
Economic Development Region Revolving Loan Fund Tax Credit	Awarded	DED
Endow Iowa Tax Credit	Awarded	DED
Enterprise Zone Program	Awarded	DED
High Quality Job Creation Program	Awarded	DED
New Capital Investment Program	Awarded	DED
New Jobs and Income Program	Awarded	DED
Venture Capital Credit--contingent credit for investments in IA fund of funds)	Awarded	Iowa Capital Investment Board (ICIB)
Venture Capital Credit--investments in seed capital funds	Awarded	Iowa Capital Investment Board (ICIB)
Venture Capital Credit--investments in venture capital funds	Awarded	Iowa Capital Investment Board (ICIB)
Renewable Energy Tax Credit	Awarded	IUB
Wind Energy Production Tax Credit	Awarded	IUB/ Supervisors
Early Childhood Development Tax Credit	Awarded	Revenue
Wage-Benefit Tax Credit	Awarded	Revenue

Tax Credits User’s Manual:

A descriptive guide to Iowa’s State Tax Credits

Published December 2005

Program Name: Accelerated Career Education Program

A. Code Citation(s):

Section 260G, Code of Iowa (program description).
Section 422.16, Code of Iowa (Withholding tax)

B. Administrative Rules Citation(s):

261 IAC 20
701 IAC 46.7

C. Program Description Based on Code Language and Administrative Rules:

The purpose of the Accelerated Career Education Program (ACE) is to assist Iowa's Community Colleges to either establish or expand programs that train individuals in the occupations most needed by Iowa businesses. The ACE program allows participating companies to divert a portion of the company's current Iowa individual income tax withholding, based on the number of seats in a training program sponsored by a business. Businesses participating in the program shall divert up to 10 percent of the hiring wage that a sponsoring business would pay to an individual that completes the programs' requirements (with a minimum of 200% of the federal poverty guideline for a family of two). The diversion goes to the community college over the life of the agreement (usually five years). The business also provides a 20% match of the program costs pro-rated by the percentage of seats sponsored.

To be eligible for the program a business must be engaged in interstate or intrastate commerce for the purpose of manufacturing, processing, or assembling products; construction; conducting research and development; or providing services in interstate or intrastate commerce

D. Credit Award Mechanism:

Credits are awarded based on application to one of Iowa's Community Colleges (15 across state). The program is monitored by the Department of Economic Development.

E. Awarding Department Program Manager or Contact:

See attached list of program contacts for Community College economic developers and DED contacts.

F. Taxes to which Credit Applies:

The Accelerated Career Education Credit from Withholding applies to Withholding tax.

G. Certification Requirements:

Tax credit certificates are not required. However, both the employer and the community college shall certify to the Iowa Department of Revenue that the credit amount agrees with the project agreement.

H. Credit Limits (if any) and Proration Provisions:

The program is subject to the following limitations:

- FY 2001: \$3 million.
- FY 2002: \$3 million.
- FY 2003: \$3 million.
- FY 2004: \$4 million.
- FY 2005 and thereafter: \$6 million.

Total credits available under the ACE program are divided among the 15 community colleges, based on allocations approved by the Department of Economic Development (specified in 261 IAC 20.14). There is also a procedure to reallocate unused credits from one college to other colleges that need additional capacity.

I. Transferability Provisions:

Credits may not be sold or traded.

J. Refundability Provisions:

Credits are not refundable.

K. Claims Filing Requirements:

The company is required to file and pay its withholding taxes semi-monthly, monthly or quarterly. This filing includes a line for credits, which includes the Accelerated Career Education Credit from Withholding. The company is also required to annually file a Verified Summary of Payments, which also includes a line for credits.

L. Performance Monitoring Requirements:

The Department of Economic Development is required to collect data and prepare an annual report on the activities of the program during the fiscal year, according to Section 260G.4C, Code of Iowa. Participants in ACE program-funded training programs are to be included in the customer tracking system implemented by the Department of Workforce Development, according to Section 260G.5, Code of Iowa.

Program Name: Assistive Device Tax Credit

A. Code Citation(s):

Section 422.11E, Code of Iowa (individual income tax).
Section 422.33(9), Code of Iowa (corporate income tax).

B. Administrative Rules Citation(s):

261 IAC 66
701 IAC 42.14
701 IAC 52.17

C. Program Description Based on Code Language and Administrative Rules:

Starting in 2000, a taxpayer who is a small business that purchases, rents or modifies an assistive device or makes workplace modifications for an individual with a disability who is employed or will be employed by the small business is eligible for this credit. The credit is limited to 50% of the first \$5,000 paid for the assistive device or workplace modification. In order to be eligible to receive the assistive device tax credit, a small business must:

- Be located in the state of Iowa.
- Employ not more than 14 full-time employees or have gross receipts of no more than \$3 million during its preceding tax year.
- Purchase, rent or modify an assistive device or make workplace modifications for an individual with a disability who is employed or will be employed by the business.

D. Credit Award Mechanism:

Credits are awarded based on application to the Department of Economic Development (DED).

E. Awarding Department Program Manager or Contact:

Kenneth H. Boyd
Wynona Bohemann

F. Taxes to which Credit Applies:

The Assistive Device Credit Applies to the Corporate Income and Individual Income Tax.

G. Certification Requirements:

Tax credit certificates are required to be attached to the taxpayer's return for the year in which the credit is claimed. The tax credit certificate shall be numbered and shall contain the taxpayer's name, address, tax identification number, the amount of credit, and tax year for which the certificate is claimed. The tax year is determined by the date of project completion.

H. Credit Limits (if any) and Proration Provisions:

The credit is capped at \$500,000 per fiscal year. Credits are awarded on a first come, first served basis.

I. Transferability Provisions:

Credits may not be sold or traded. Credits awarded to pass-through entities shall be claimed by the entity's owners based on share of the entity's income distributed to each owner.

J. Refundability Provisions:

Credit is refundable. Any credit in excess of the tax liability can also be carried forward to the next tax year.

K. Claims Filing Requirements:

For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached.

L. Performance Monitoring Requirements:

DED reserves the right to monitor the recipient's records to ensure compliance with program requirements.

Program Name: Child and Dependent Care Tax Credit

A. Code Citation(s):

Section 422.12C, Code of Iowa Supplement 2005 (individual income tax).

B. Administrative Rules Citation(s):

701 IAC 42.9

C. Program Description Based on Code Language and Administrative Rules:

This credit is available to individual taxpayers who have eligible child and dependent care expenses. Eligible taxpayers must have net income of \$40,000 or less for tax years beginning on or after January 1, 1993, and before January 1, 2006. Starting with the January 1, 2006 tax year, the credit is available for taxpayers with income of less than \$45,000. The credit is based on a percentage of the federal child and dependent care credit. The percentages vary depending on the amount of Iowa adjusted gross income.

- Net income less than \$10,000: 75 percent.
- Net income of \$10,000 to \$20,000: 65 percent.
- Net income of \$20,000 to \$25,000: 55 percent.
- Net income of \$25,000 to \$35,000: 50 percent.
- Net income of \$35,000 to \$40,000: 40 percent.

D. Credit Award Mechanism:

Credits do not require an award. Taxpayers claim the credit, if eligible, on the individual income tax return.

E. Awarding Department Program Manager or Contact:

None

F. Taxes to which Credit Applies:

The Child and Dependent Care Tax Credit Applies to the Individual Income Tax.

G. Certification Requirements:

None

H. Credit Limits (if any) and Proration Provisions:

None

I. Transferability Provisions:

Credits may not be sold or traded. Credits awarded to married taxpayers who elect to file separately on a combined return, the child and dependent care tax credit shall be prorated to each spouse in the proportion that each spouse's respective net income bears to the total combined net income.

J. Refundability Provisions:

The Child and Dependent Care Tax Credit is refundable. Taxpayers may also elect to carry forward unused credits to the following year.

K. Claims Filing Requirements:

No additional requirements

L. Performance Monitoring Requirements:

None

Program Name: Cow-Calf Credit

A. Code Citation(s):

Section 422.120, Code of Iowa Supplement 2005 (description of program).

B. Administrative Rules Citation(s):

701 IAC 43.8.
701 IAC 52.13.

C. Program Description Based on Code Language and Administrative Rules:

Effective for tax years beginning on or after January 1, 1996, eligible individual and corporation income taxpayers who operate cow-calf beef operations in Iowa are eligible for a cow-calf credit. The amount of credit is limited to \$3,000 per taxpayer. The amount of the credit is determined by adding together for each head of livestock in the taxpayer's operation the product of 10 cents for each corn equivalent (111.5 in the case of cow-calf operations, or \$11.15 total per head) deemed to have been consumed by that animal in the taxpayer's operation in the tax year. Only taxpayers with federal taxable income of \$99,700 or less are eligible for the credit.

D. Credit Award Mechanism:

The credit is available to any taxpayer eligible for the credit, based on application to the Iowa Department of Revenue.

E. Awarding Department Program Manager or Contact:

Not applicable

F. Taxes to which Credit Applies:

The Cow-Calf Credit applies to the Individual and Corporate Income Taxes.

G. Certification Requirements:

None

H. Credit Limits (if any) and Proration Provisions:

The refund is subject to an overall limit of \$1,770,342 for claims paid in February 2006. If the total amount of refund claims exceeds this cap, each eligible taxpayer will receive a prorated share of the total. Taxpayers do not receive any compensation if the credit received is less than the credit claimed.

I. Transferability Provisions:

Credits may not be sold or traded. Credits awarded to pass-through entities shall be claimed by the entity's owners based on share of the entity's income distributed to each owner.

J. Refundability Provisions:

The Cow-Calf Credit is refundable.

K. Claims Filing Requirements:

The Cow-Calf Credit is computed on form IA 132. The form must be filed within ten months after the end of the tax year, and the refunds are issued by February 28 of the next year.

L. Performance Monitoring Requirements:

None

Program Name: Early Childhood Development Tax Credit

A. Code Citation(s):

Section 422.12C(1A), Code of Iowa Supplement 2005 (individual income tax).

B. Administrative Rules Citation(s):

Rules have not yet been promulgated.

C. Program Description Based on Code Language and Administrative Rules:

The Early Childhood Development tax credit is equal to 25% of the first \$1,000 of expenses paid for early childhood development expenses for each dependent from the ages of three to five. The credit is available for tax years beginning after January 1, 2006. The credit is only available to taxpayers whose net income is less than \$45,000. If the taxpayer claims the early childhood development tax credit, the taxpayer cannot claim the Iowa child and dependent care credit.

Early childhood development expenses that qualify for the credit include the following:

- Services provided to the dependent by a preschool, as defined in Section 237A.1, Code of Iowa.
- Books that improve child development, such as textbooks, music and art books, teacher's editions and reading books
- Instructional materials required to be used in a lesson activity, such as paper, notebooks, pencils and art supplies
- Lesson plans and curricula
- Child development and educational activities outside the home, such as drama, art, music and museum activities and the entrance fees for such activities.

Early childhood development expenses that do not qualify for the credit include:

- Food, lodging, or membership fees relating to child development and educational activities outside the home
- Services, materials, or activities for the teaching of religious tenets, doctrines, or worship, if the purpose of these expenses is to instill those tenants, doctrines or worship.

D. Credit Award Mechanism:

Credits are awarded based on application to the Iowa Department of Revenue (IDR).

E. Awarding Department Program Manager or Contact:

Jim McNulty

F. Taxes to which Credit Applies:

The Early Childhood Development Tax Credit Applies to the Individual Income Tax.

G. Certification Requirements:

Notification is issued to applicants determined to be eligible for the credit by IDR.

H. Credit Limits (if any) and Proration Provisions:

The total amount of credits awarded per fiscal year is limited to \$2.5 million. If eligible applications for tax credits exceed this amount, the taxpayer will receive a pro rata amount of the credit.

I. Transferability Provisions:

Credits may not be sold or traded. Credits awarded to married taxpayers who elect to file separately on a combined return, the early childhood development tax credit shall be prorated to each spouse in the proportion that each spouse's respective net income bears to the total combined net income.

J. Refundability Provisions:

The Early Childhood Development Tax Credit is refundable. Taxpayers may also elect to carry forward unused credits to the following year.

K. Claims Filing Requirements:

Each taxpayer who intends to claim this credit must apply to the department by November 1 of the tax year to which the credit is applicable. The expenses eligible for the credit include those incurred between November 1 of the previous tax year through October 31 of the tax year to which the credit is applicable. The department must notify the taxpayer of the amount of the tax credit allowed by January 1 following the deadline for the application.

L. Performance Monitoring Requirements:

None

Program Name: Earned Income Credit

A. Code Citation(s):

Section 422.12C, Code of Iowa Supplement 2005 (individual income tax).

B. Administrative Rules Citation(s):

701 IAC 42.2(9)

C. Program Description Based on Code Language and Administrative Rules:

This credit is available to individual taxpayers who qualify for the federal earned income credit, and is 6.5% of the federal earned income credit for tax years beginning on or after January 1, 1991.

D. Credit Award Mechanism:

Credits do not require an award. Taxpayers claim the credit, if eligible, on the individual income tax return.

E. Awarding Department Program Manager or Contact:

None

F. Taxes to which Credit Applies:

The Earned Income Credit Applies to the Individual Income Tax.

G. Certification Requirements:

None

H. Credit Limits (if any) and Proration Provisions:

None

I. Transferability Provisions:

Credits may not be sold or traded. Credits awarded to married taxpayers who elect to file separately on a combined return, the earned income credit shall be prorated to each spouse in the proportion that each spouse's respective net income bears to the total combined net income.

J. Refundability Provisions:

The Earned Income Credit is not refundable. Unused credits do not carry forward to the following year.

K. Claims Filing Requirements:

No additional requirements

L. Performance Monitoring Requirements:

None

Program Name: Economic Development Region Revolving Loan Fund Tax Credit

A. Code Citation(s):

HF868A

Section 15E.232, Code of Iowa, (program description).

Section 422.11K, Code of Iowa (individual income tax).

Section 422.33(17), Code of Iowa (corporate income tax).

Section 422.60(9), Code of Iowa (franchise tax).

Section 432.12F, Code of Iowa (insurance premiums tax).

Section 533.24(6), Code of Iowa (moneys and credits tax).

B. Administrative Rules Citation(s):

261 IAC 32

701 IAC 42.28 (individual income tax – proposed)

701 IAC 52.29 (corporation income tax - proposed)

701 IAC 58.18 (franchise tax – proposed)

C. Program Description Based on Code Language and Administrative Rules:

Effective for tax years ending on or after July 1, 2005, a tax credit equal to 20% of the contribution made to an economic development region revolving fund is allowed. The economic development region must be approved by the Department of Economic Development (DED), and DED is responsible for administering and authorizing these tax credits.

D. Credit Award Mechanism:

Credits are awarded based on application to the Department of Economic Development (DED).

E. Awarding Department Program Manager or Contact:

Mike Miller, Investment Management Team Leader, (515) 242-4807

F. Taxes to which Credit Applies:

The Economic Development Region Revolving Loan Fund Tax Credit Applies to the Corporate Income, Individual Income, Franchise, Insurance Premiums, and Moneys and Credits Tax.

G. Certification Requirements:

No tax credit certificates are required by language in statute or rule.

H. Credit Limits (if any) and Proration Provisions:

The credit is capped at \$2 million per fiscal year. Any unused amount of the \$2 million cap can be carried forward into the next Fiscal Year.

I. Transferability Provisions:

Credits may not be sold or traded. Credits awarded to pass-through entities shall be claimed by the entity's owners based on share of the entity's income distributed to each owner.

J. Refundability Provisions:

Credit is not refundable. Any credit in excess of the tax liability can be carried forward for ten years.

K. Claims Filing Requirements:

For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached.

L. Performance Monitoring Requirements:

None

Program Name: Endow Iowa Tax Credit

A. Code Citation(s):

Section 15E.305, Code of Iowa (program description).
Section 422.11H, Code of Iowa (individual income tax).
Section 422.33(14), Code of Iowa (corporate income tax).
Section 422.60(7), Code of Iowa (franchise tax).
Section 432.12D, Code of Iowa (insurance premiums tax).
Section 533.24, Code of Iowa (money's & credits tax)

B. Administrative Rules Citation(s):

261 IAC 47
701 IAC 42.20
701 IAC 52.23
701 IAC 58.13

C. Program Description Based on Code Language and Administrative Rules:

Starting in tax year 2003, an Endow Iowa tax credit equal to 20% of a taxpayer's endowment gift (up to \$100,000 for a single taxpayer) to a qualified community foundation is available. The gift must be for a permanent endowment fund established to benefit a charitable cause in Iowa.

D. Credit Award Mechanism:

Credits are awarded based on application to the Department of Economic Development (DED).

E. Awarding Department Program Manager or Contact:

Mike Miller, Investment Management Team Leader, (515) 242-4807

F. Taxes to which Credit Applies:

The Endow Iowa Tax Credit Applies to the Corporate Income, Individual Income, Franchise, Insurance Premiums and Moneys and Credits Tax.

G. Certification Requirements:

No tax credit certificates are required by language in statute or rule.

H. Credit Limits (if any) and Proration Provisions:

The credit is limited to \$2 million in the aggregate for the 2003 and 2004 tax years, and is limited to \$2 million for each year 2005-2008. The credit is scheduled to expire at the end of 2008. Credits are awarded on a first come, first served basis.

I. Transferability Provisions:

Credits may not be sold or traded. Credits awarded to pass-through entities shall be claimed by the entity's owners based on share of the entity's income distributed to each owner.

J. Refundability Provisions:

Credit is not refundable. Any credit in excess of the tax liability may be carried forward for up to five years.

K. Claims Filing Requirements:

For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached.

L. Performance Monitoring Requirements:

By January 31 of each calendar year, DED is required to publish an annual report of program activities during the previous calendar year. The annual report shall include a detailed listing of Endow Iowa tax credits authorized by the department.

Program Name: Enterprise Zone Program (EZ)

A. Code Citation(s):

Section 15E.191, Code of Iowa Supplement 2005, through Section 15E .196, Code of Iowa Supplement 2005. (program description).

Section 15.333, Code of Iowa Supplement 2005, statutory text from HF 868 (amortization over five years of investment tax credit).

B. Administrative Rules Citation(s):

261 IAC 59

C. Program Description Based on Code Language and Administrative Rules:

To encourage investment in Iowa's economically distressed areas, local and state tax credits, refunds and exemptions are available for qualifying companies that expand or locate in designated Enterprise Zones. A map of cities and counties with certified Enterprise Zones is attached.

Business locating or expanding in an Enterprise Zone may receive multiple tax incentives, including:

- A local property tax exemption on the value added to the property.
- Supplemental New Jobs Credit from Withholding, which provides additional funding for training new employees. If applicable, these funds would be in addition to those authorized under the Iowa New Jobs Training Program.
- As an alternative to the Supplemental New Jobs Credit from Withholding, eligible businesses may elect to take the Housing Assistance Credit from Withholding, which provides down payment assistance or rental assistance for employees in new jobs.
- A refund of state sales, service, or use taxes paid to contractors or subcontractors during construction.
- An investment tax credit of up to a maximum of 10% of the new investment in machinery and equipment, land, buildings, and improvements to existing buildings. This Iowa tax credit may be carried forward for up to seven years or until depleted. For Enterprise Zone projects approved on or after July 1, 2005, the investment tax credit must be amortized over a five year period.
- The State's Research Activities Credit may be doubled while the business is participating in the program for up to 10 years.

To receive these benefits, businesses must:

- The business must make a minimum capital investment of \$500,000.
- The business must create at least 10 full-time, project-related jobs and maintain them for at least 10 years.
- The business provides all full-time employees with the option of choosing a standard medical and dental insurance plan of which the business pays 80% of the premiums or a monetarily equivalent benefit.

- The business must pay an average wage that meets or exceeds 90% of the average county or regional wage, whichever is lower. (Check with the IDED for the community's current wage requirement.)
- The business can not be a retail establishment or a business whose entrance is limited by cover charge or membership.
- The business can not close or reduce its operation in one area of the state and relocate substantially the same operation in the Enterprise Zone.
- The local Enterprise Zone Commission and the Iowa Department of Economic Development must approve the business' proposed project prior to project initiation.

Eligible housing businesses that rehabilitate or construct at least four single family housing units or three multi-family housing units are also eligible for Enterprise Zone benefits. In this case, benefits include the Investment Tax Credit of up to 10 percent of the new investment and the refund of state sales, service, or use taxes paid to contractors or subcontractors during construction.

D. Credit Award Mechanism:

Credits are awarded based on application to the Department of Economic Development (DED).

E. Awarding Department Program Manager or Contact:

Amy Johnson (Non-Housing Projects)
 Kent Powell (Housing Projects)

F. Taxes to which Credit Applies:

- Local Property Tax Exemption applies to the Property Tax.
- Supplemental New Jobs Credit applies to the Withholding Tax.
- Housing Assistance Credit applies to the Withholding Tax.
- Sales Tax Refund applies to the Sales and Use Tax.
- Investment Tax Credit applies to Corporate Income, Individual Income, Franchise, Moneys and Credits, and Insurance Premium Taxes.
- Additional Research Activities Credit applies to Corporate Income and Individual Income Taxes.

G. Certification Requirements:

Companies with value-added agricultural and biotechnology projects may, upon successful completion of the project, request and receive certificates from the Department of Economic Development for an unused Investment Tax Credit. The certificate will allow the taxpayer to receive a portion of the unused Investment Tax Credit in the form of a refund for value-added agricultural or biotechnology projects.

Eligible housing businesses that are awarded Investment Tax Credits are issued tax credit certificates that must be attached to the taxpayer's return.

H. Credit Limits (if any) and Proration Provisions:

The refund of unused Investment Tax Credits for value-added agricultural and biotechnology projects is limited to \$4 million per fiscal year. Credits are prorated by the Department of Economic Development among all applicants. The eligible housing business investment tax credit cannot exceed 10% of \$140,000 for each home or individual unit in a multiple dwelling unit building.

Warehouse and distribution center projects may receive a refund of sales taxes paid on racks, shelving and conveyor equipment. DED cannot issue more than \$500,000 of these refunds during a fiscal year. The refunds will be issued on a first-come, first-served basis. Taxpayers not receiving a refund due to \$500,000 limit will have their requests considered in the succeeding fiscal year.

I. Transferability Provisions:

Enterprise Zone certificates issued to eligible housing businesses may be transferred if low income housing tax credits authorized under section 42 of the Internal Revenue Code are also used to assist in financing the housing development or if the housing development is located in a brownfield site as defined in section 15.291 or a blighted area as defined in section 403.17. Within 90 days of transfer, the transferee must submit the transferred tax credit certificate to DED, which then has thirty days to issue a replacement tax credit certificate to the transferee. Credits shall not be claimed by a transferee until a replacement certificate identifying the transferee as the proper holder has been issued. Any consideration received by the awardee from the transfer of the tax credit is not added to income, and any consideration paid by the transferee for the transfer is not deducted from income for the taxes to which the credit applies. For all other Enterprise Zone businesses, credits may not be sold or traded.

For the Investment Tax Credit and Research Activities Credit, credits awarded to pass-through entities shall be claimed by the entity's owners based on the share of the entity's income distributed to each owner.

J. Refundability Provisions:

- Local Property Tax Exemption is not refundable.
- Supplemental New Jobs Credit is not refundable.
- Housing Assistance Credit is not refundable
- Sales Tax Refund is refundable.
- Investment Tax Credit is generally not refundable. Investment Tax Credit is refundable for value-added agricultural or biotechnology projects, subject to successful completion of the project and the cap of \$4 million per fiscal year. Any non-refundable credit in excess of tax liability may be carried forward for up to seven years.
- Additional Research Activities Credit is refundable.

K. Claims Filing Requirements:

Supplemental New Jobs Credit requires valid agreement with a Community College under Chapter 260E, Code of Iowa. The Sales Tax Refund requires filing Form 843. For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached. The Investment Tax Credit requires filing Form 3468 with the taxpayer's return, regardless of taxpayer type. The double Research Activities Credit requires filing Form 128 or Form 128A with the taxpayer's return, regardless of taxpayer type.

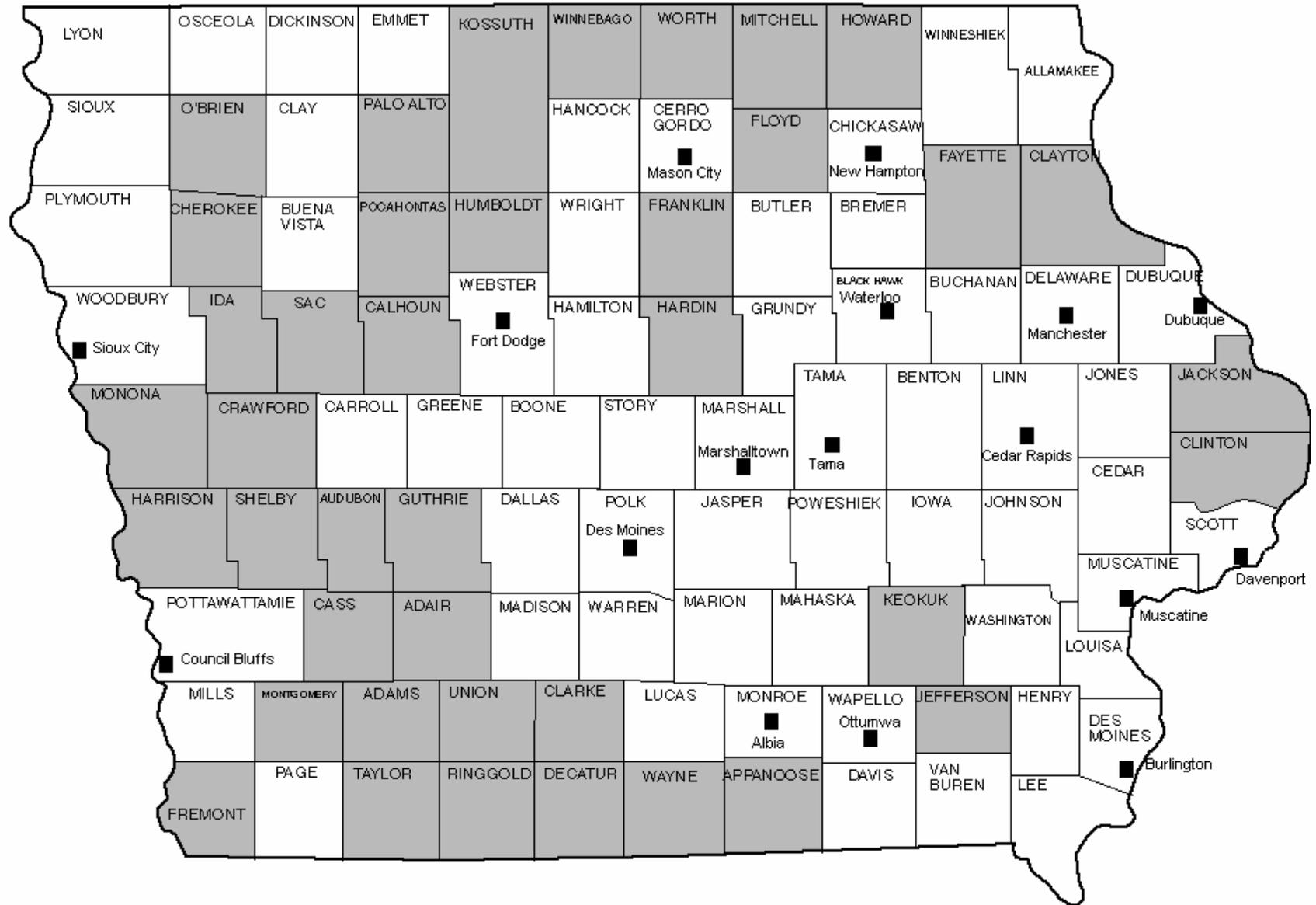
L. Performance Monitoring Requirements:

According to 261 IAC 59.14(1), an eligible business that is approved to receive incentives or assistance shall, for the length of its designation as an enterprise zone business, certify annually to the county or city and DED that it is in compliance with the requirements of program statute and rules.

An eligible housing business shall report annually to the DED until project completion as outlined in their contract with DED. Companies awarded credits agree to job creation, job retention, wage, and investment goals. The Business Services unit of the Department of Economic Development surveys companies every 6 months to assess progress toward meeting these goals.

Iowa Counties & Cities with Certified Enterprise Zones

Updated as of 10/16/2003



Note: This map identifies those Iowa cities and counties (shaded in gray) that have one or more certified Enterprise Zones within their jurisdictions. Specific information about a city or county's Enterprise Zone may be obtained by contacting the Iowa Department of Economic Development.

Program Name: Ethanol Blended Gasoline Credit

A. Code Citation(s):

Section 422.11C, Code of Iowa 2005 Supplement (individual income tax).
Section 422.33(11), Code of Iowa 2005 Supplement (corporate income tax).

B. Administrative Rules Citation(s):

701 IAC 42.16.
701 IAC 52.19.

C. Program Description Based on Code Language and Administrative Rules:

Starting in 2002, a tax credit is available to service stations at which more than 60 percent of the total gasoline sold is ethanol blended gasoline. The credit is equal to two and a half cents for each gallon sold in excess of 60 percent.

D. Credit Award Mechanism:

Credits do not require an award. Taxpayers claim the credit, if eligible, on the individual income tax return.

E. Awarding Department Program Manager or Contact:

None

F. Taxes to which Credit Applies:

The Ethanol Blended Gasoline Credit applies to the Individual and Corporate Income taxes.

G. Certification Requirements:

None

H. Credit Limits (if any) and Proration Provisions:

None

I. Transferability Provisions:

Credits may not be sold or traded. Credits awarded to pass-through entities shall be claimed by the entity's owners based on share of the entity's income distributed to each owner.

J. Refundability Provisions:

The Ethanol Blended Gasoline Credit is refundable. Taxpayers may also elect to carry forward unused credits to the following year.

K. Claims Filing Requirements:

Taxpayers filing credit claims for the Ethanol Blended Gasoline Credit submit Form IA 6478 with the tax return on which the credit is claimed.

L. Performance Monitoring Requirements:

None

Program Name: High Quality Job Creation Program (HQJCP)

A. Code Citation(s):

Section 15.326, Code of Iowa Supplement 2005, through Section 15.337, Code of Iowa Supplement 2005. (program description). The Code citation is the same as the New Jobs and Income Program, which HQJCP replaces. New statutory text may be reviewed in House File 868.

B. Administrative Rules Citation(s):

261 IAC 68

C. Program Description Based on Code Language and Administrative Rules:

The High Quality Job Creation Program, established by House File 868, became effective July 1, 2005. The program replaces the New Jobs and Income Program (NJIP) and the New Capital Investment Programs (NCIP). The amount of tax incentives awarded is dependent on the number of jobs created and the qualifying investment made. Actual award amounts will be based on the Business’s level of need; the quality of the jobs; the percentage of created jobs defined as high-quality; and the economic impact of the project. The new jobs must have a starting wage including certain benefits which is at least 130% of the average county wage to be eligible for these tax credits. The maximum tax credit awards available to a business are as follows:

Amount of Qualifying Investment	No Jobs*	Number of Jobs Created with a Starting Wage including certain Employee Benefits equal to 130% of the Average County Wage			
		1-5	6-10	11-15	16+
Less than \$100,000	Up to 1% ITC	Up to 2% ITC	Up to 3% ITC	Up to 4% ITC	Up to 5% ITC
\$100,000 - \$499,999	Up to 1% ITC Sales Tax Refund	Up to 2% ITC Sales Tax Refund	Up to 3% ITC Sales Tax Refund	Up to 4% ITC Sales Tax Refund	Up to 5% ITC Sales Tax Refund
\$500,000 +	Up to 1% ITC Sales Tax Refund Double Research Activities Credit	Up to 2% ITC Sales Tax Refund Double Research Activities Credit	Up to 3% ITC Sales Tax Refund Double Research Activities Credit	Up to 4% ITC Sales Tax Refund Double Research Activities Credit	Up to 5% ITC Sales Tax Refund Double Research Activities Credit

* Modernization or Retention Projects Only

Amount of Qualifying Investment	Number of Jobs Created with a Starting Wage including certain Employee Benefits equal to 160% of the Average County Wage				
	21-30	31-40	41-50	51-60	61+
\$10,000,000 or More	Up to 6% ITC	Up to 7% ITC	Up to 8% ITC	Up to 9% ITC	Up to 10% ITC
	Sales Tax Refund	Sales Tax Refund	Sales Tax Refund	Sales Tax Refund	Sales Tax Refund
	Double Research Activities Credit	Double Research Activities Credit	Double Research Activities Credit	Double Research Activities Credit	Double Research Activities Credit
	Property Tax Exemption	Property Tax Exemption	Property Tax Exemption	Property Tax Exemption	Property Tax Exemption

“Amount of Qualifying Investment” means a capital investment in real property including the purchase price of land, existing buildings and structures; site preparation, improvements to real property, building construction, and long-term lease costs. It also includes capital investment in depreciable assets. “ITC” means Investment Tax Credit or Insurance Premium Tax Credit. “Sales Tax Refund” means Sales and Use Tax Refunds or Refundable Corporate Income Tax Credit equal to Sales Taxes Paid by Developer.

The investment tax credit is amortized equally over a five year period, instead of the entire credit being available when the asset is placed in service. An investment tax credit in excess of the tax liability can be credited to the tax liability for the following seven years or until depleted, whichever occurs first.

Additionally, a participating company must meet at least four of the following criteria:

- Offer a pension or profit-sharing plan.
- Produce/manufacture value-added goods or services or belong to one of Iowa’s "target" business segments: value-added agricultural products; insurance, financial services or telecommunications; plastics; metals; printing, paper or packaging products; pharmaceuticals; software development; instruments, measuring devices and medical instruments; and recycling and waste management.
- Provide and pay at least 80% of the costs of a standard employee medical and dental insurance plan for all full-time employees.
- Make daycare services available.
- Annually invest no less than one percent of the Iowa facility's pretax profits in research and development.
- Annually invest not less than one percent of Iowa facility's pretax profits in worker training and skills enhancement.
- Have a productivity and safety improvement program in place.
- Occupy an existing vacant facility of at least 20,000 sq. ft.

D. Credit Award Mechanism:

Credits are awarded based on application to the Department of Economic Development (DED).

E. Awarding Department Program Manager or Contact:

Amy Johnson

F. Taxes to which Credit Applies:

- Local Property Tax Exemption applies to the Property Tax.
- Sales Tax Refund applies to the Sales and Use Tax.
- Third Party Sales Tax Credit applies to Corporate Income Tax.
- Investment Tax Credit applies to Corporate Income, Individual Income, Franchise and Insurance Premium Taxes.
- Additional Research Activities Credit applies to Corporate Income and Individual Income Taxes.

G. Certification Requirements:

The Third Party Sales Tax Credit requires the business to submit completed forms for the credit to DED, which then issues a tax credit certificate. The certificate is required to be attached to the taxpayer’s return when claimed.

Companies with value-added agricultural and biotechnology projects may, upon successful completion of the project, request and receive certificates from DED for an unused Investment Tax Credit. The certificate will allow the taxpayer to receive a portion of the unused Investment Tax Credit in the form of a refund.

H. Credit Limits (if any) and Proration Provisions:

The refund of unused Investment Tax Credits for value-added agricultural and biotechnology projects is limited to \$4 million per fiscal year. Credits are prorated by DED among all applicants.

Each calendar year, DED shall not approve more than \$3.6 million worth of investment tax credits and insurance premium tax credits for projects with qualifying investments of less than \$1 million. Tax credits subject to this limitation will be awarded on a first-come, first-served basis.

Warehouse and distribution center projects may receive a refund of sales taxes paid on racks, shelving and conveyor equipment. DED cannot issue more than \$500,000 of these refunds during a fiscal year. The refunds will be issued on a first-come, first-served basis. Taxpayers not receiving a refund due to \$500,000 limit will have their requests considered in the succeeding fiscal year.

I. Transferability Provisions:

Credits may not be sold or traded. For the Investment Tax Credit and Research Activities Credit, credits awarded to pass-through entities shall be claimed by the entity’s owners based on the share of the entity’s income distributed to each owner.

J. Refundability Provisions:

- Local Property Tax Exemption is not refundable.
- Sales Tax Refund is refundable.
- Third Party Sales Tax Credit is refundable or may be carried forward for up to seven years.
- Investment Tax Credit is generally not refundable. Investment Tax Credit may be refundable for value-added agricultural and biotechnology projects, subject to the cap of \$4 million per fiscal year. Any non-refundable credit in excess of tax liability may be carried forward for up to seven years.
- Additional Research Activities Credit is refundable.

K. Claims Filing Requirements:

The Sales Tax Refund requires filing Form 843. For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached for the Investment Tax Credit and double Research Activities Credit. The Investment Tax Credit requires filing Form 3468 with the taxpayer's return, regardless of taxpayer type. The double Research Activities Credit requires filing Form 128 or Form 128A with the taxpayer's return, regardless of taxpayer type.

L. Performance Monitoring Requirements:

Companies awarded tax incentives under this program agree to job creation, job retention, wage, and investment goals. The Business Services unit of the Department of Economic Development surveys companies every 6 months to assess progress toward meeting these goals.

Program Name: Historic Preservation Tax Incentive Program

A. Code Citation(s):

Section 404A, Code of Iowa Supplement 2005 (program description).
Section 422.11D, Code of Iowa Supplement 2005 (individual income tax).
Section 422.33(10), Code of Iowa Supplement 2005 (corporate income tax).
Section 422.60(4), Code of Iowa Supplement 2005 (franchise tax).
Section 432.12A, Code of Iowa Supplement 2005 (insurance premiums tax).

B. Administrative Rules Citation(s):

223 IAC 48.

C. Program Description Based on Code Language and Administrative Rules:

Starting in 2000, a historic property rehabilitation tax credit is available for 25% of the qualified costs of rehabilitation of eligible property in Iowa. To qualify, the property or district must be designated as historically significant. Barns constructed before 1937 are also eligible. For commercial property, rehabilitation costs must equal at least 50 percent of the value of the property prior to rehabilitation. For residential property or barns, rehabilitation costs must equal at least the lesser of \$25,000 or 25 percent of the property's market value prior to rehabilitation. For housing, rehabilitation costs used to calculate the credit are capped at \$100,000 per unit.

There are two funding streams for tax credits: the first applies to any historic property within the state (STC) and the second applies only to historic properties located in cultural and entertainment districts (CED).

D. Credit Award Mechanism:

Credits are awarded based on application to the Department of Cultural Affairs (DCA).

E. Awarding Department Program Manager or Contact:

Beth Foster Hill

F. Taxes to which Credit Applies:

The Historic Preservation Tax Incentive applies to the Individual Income, Corporate Income, Franchise and Insurance Premiums Taxes.

G. Certification Requirements:

After the project is complete, DCA will issue a tax credit certificate to the taxpayer eligible to take the credit. If the tax credit is transferred to another taxpayer, the transferee has 90 days to request a replacement credit certificate

H. Credit Limits (if any) and Proration Provisions:

The credit is limited in the aggregate to \$2.4 million per fiscal year for the statewide credit. Starting with state Fiscal Year 2006 (ending June 2006), an additional \$4.0 million in tax credits can be approved for Fiscal Years 2006 through 2015 for rehabilitation projects located in cultural and entertainment districts. Currently, there is sufficient demand for the credit that they are reserved up to five tax years ahead of time. There is no proration of credits.

I. Transferability Provisions:

Starting in 2003, the property rehabilitation tax credit can be transferred to any person or entity. Any consideration received by the awardee from the transfer of the tax credit is not added to income, and any consideration paid by the transferee for the transfer is not deducted from income for the taxes to which the credit applies.

Credits awarded to pass-through entities shall be claimed by the entity's owners based on the share of the entity's income distributed to each owner. Effective July 1, 2005, if low-income housing tax credits authorized under section 42 of the Internal Revenue Code are used to finance the project, the tax credit earned by a partnership, LLC or S corporation can be claimed by individuals based on the amounts designated by the pass-through entity.

J. Refundability Provisions:

Any credit in excess of the tax liability is subject to a refund at a discounted amount. The discounted value of the tax credit is calculated by the Department of Economic Development, in consultation with the Department of Revenue, based on the discounted value of the tax credit five years after the tax year of the project completion using a discount rate of the prime rate plus two percent. The refunded credit is capped at 75 percent of the allowable tax credit.

K. Claims Filing Requirements:

For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached. A valid tax credit certificate and copy of the Part 3 Application Signature Page are also required to be filed with the taxpayer's return.

L. Performance Monitoring Requirements:

DCA is required to submit an annual report on the economic impact of the program, which will include data on the number and potential value of rehabilitation projects during the latest 12-month period, the total property rehabilitation credits originally granted during that period, the potential reduction in state tax revenues as a result of all tax credits still unused and eligible for refund, and the potential increase in local property tax revenues as a result of the rehabilitated projects. (Section 404A.5, Code of Iowa.) DCA completes an annual report as part of its effort to fulfill these functions.

Program Name: Iowa New Jobs Training Program

A. Code Citation(s):

Section 260E, Code of Iowa (program description).
Section 15.108(6), Code of Iowa (Department of Economic Development's role)
Section 15E.197, Code of Iowa (Supplemental New Jobs Credit from Withholding)
Section 15A.7, Code of Iowa (Supplemental New Jobs Credit from Withholding)
Section 15A.8, Code of Iowa (Loans Payable from New Jobs Credit from Withholding)
Section 15A.9(3) Code of Iowa (Quality Jobs Enterprise Zone)
Section 422.16, Code of Iowa (Withholding tax)
Section 422.16A, Code of Iowa (Bond Retirement Certification and Transfer)
Section 422.11A, Code of Iowa (Iowa New Jobs Credit – Individual Income Tax)
Section 422.33(6) Code of Iowa (Iowa New Jobs Credit – Corporation Income Tax)

B. Administrative Rules Citation(s):

261 IAC 5.
701 IAC 46.8, 46.9
701 IAC 42.2(7)
701 IAC 52.8

C. Program Description Based on Code Language and Administrative Rules:

The Iowa New Jobs Training Program assists businesses, which are creating new positions, with new employee training. Eligible businesses may be new to Iowa, expanding their Iowa workforce, or relocating to the state. Employees qualifying for training services must be in newly created positions and pay Iowa withholding tax.

A business must be engaged in interstate or intrastate commerce for the purpose of manufacturing, processing, assembling products, warehousing, wholesaling, or conducting research and development. A business, which provides services, must have customers outside of Iowa. A business cannot have closed or substantially reduced its employment base at any of its other business sites in Iowa in order to relocate substantially the same operation to another area of the state. The employees who will receive training must occupy job positions which did not exist during the 6 months prior to the date that the business and community college agree to pursue a training project. As part of the project, no more than 50 percent of the annual gross payroll costs expended for on-the-job training can be reimbursed for up to one year of the new jobs.

The company's partner Community College sells bonds to finance the cost of the established training. Dollars available through the program are dependent upon the training and development needs and the projected tax revenue from the new positions created. The business diverts 1.5 percent or 3 percent of gross payroll, depending on whether the project surpasses a wage threshold established annually by the Department of Economic Development, from the Iowa state withholding taxes generated by the new

positions to the Community College to retire the bonds. According to statute, the bonds can also be paid off through tax increment financing, though in practice TIF has been seldom used in recent years.

The company also is eligible to receive the Iowa New Jobs Credit of 6 percent of the taxable wages which the employer is required to contribute to the state unemployment compensation fund (\$1,224 per job created in 2005 and \$1,278 per job created in 2006). To receive the credit, the company must enter into a 260E agreement and increase Iowa employment by at least 10%.

Community Colleges can receive funding for administrative costs. According to 261 IAC 5.4(7), the community colleges may be reimbursed indirect costs at the rate to be determined annually. The rate will be determined by DED and the Iowa Department of Education. The indirect cost rate and procedures will be communicated to the community colleges by DED. The rate will be based on function five and nine expenditures of the Iowa area community college uniform accounting system. The indirect cost rate shall be applied against the total issuance.

D. Credit Award Mechanism:

Credits are awarded based on application to one of Iowa's Community Colleges (15 across state). The program is monitored by the Department of Economic Development.

E. Awarding Department Program Manager or Contact:

See attached list of program contacts for Community College economic developers and DED contacts.

F. Taxes to which Credit Applies:

- New Jobs Credit from Withholding applies to Withholding tax.
- Supplemental New Jobs Credit from Withholding applies to Withholding tax.
- Iowa New Jobs Credit applies to Corporate Income tax and Individual Income tax.
- Tax Increment Financing applies to Property tax.

G. Certification Requirements:

None.

H. Credit Limits (if any) and Proration Provisions:

None.

I. Transferability Provisions:

Credits may not be sold or traded. For the Iowa New Jobs Credit, credits awarded to pass-through entities shall be claimed by the entity's owners based on the share of the entity's income distributed to each owner.

J. Refundability Provisions:

Credits are not refundable. Iowa New Jobs Credit that exceeds tax liability can be carried forward for up to ten years.

K. Claims Filing Requirements:

The company is required to file and pay its withholding taxes semi-monthly, monthly or quarterly. This filing includes a line for credits, which include the New Jobs Credit from Withholding and Supplemental New Jobs Credit from Withholding. The company is also required to annually file a Verified Summary of Payments, which also includes a line for credits. For the Iowa New Jobs Credit, taxpayers filing corporate income tax returns must attach Schedule C1 and Form 133 with the taxpayer's return.

L. Performance Monitoring Requirements:

According to 261 IAC 5.10, "each community college shall establish a monitoring system which includes, at a minimum, a review of the business's compliance with the Act, these rules and the training agreement." Monitoring is required to be conducted annually at a minimum, and the Community Colleges are required to notify DED immediately of any events of default. According to 261 IAC 5.9, "an annual report shall be completed by the community college on or before August 15. The report shall include a report of the incremental property taxes and new jobs credits from withholding generated for the fiscal year, a specific description of the training conducted, the number of employees provided program services under the project, the median wage of employees in the new jobs in the project, and the administrative costs directly attributable to the project. According to 260E.7, Code of Iowa, DED "shall prepare an annual report for the governor and general assembly on the activities of the industrial new jobs training program."

**State of Iowa
Department of Education
Judy A. Jeffrey, Director and Executive Officer**

Janice Nahra Friedel, Ph.D., Administrator

***Division of Community Colleges
and Workforce Preparation***

Beverly D. Bunker, Bureau Chief

***Bureau of Community Colleges
& Career & Technical Education***

Iowa's Economic Developers

Merged Area	Name	College	Telephone
I	Penelope Wills President of the college & Vice President of Economic Development	Northeast Iowa Community College Box 400 Calmar, Iowa 52132	563/562-3263x221—800/728-2256 Fax #: 563/562-3719 willsp@nicc.edu
	Greg Willging	Dubuque Center 700 Main Street Dubuque, Iowa 52001	563/557-8271x128—800/728-7367 Fax #: 563/557-8353 willging@nicc.edu
II	Jody East	North Iowa Area Community College 500 College Drive Mason City, Iowa 50401	641/422-4218--888/466-4222x4218 Fax #: 641/422-4112 eastjody@niacc.edu
	Terry Schumaker	Iowa Workforce Development Center 600 South Pierce Avenue Mason City, Iowa 50401	641/422-1541—800/392-2230x1541 Fax #: 641/422-1524 terry.schumaker@iwd.state.ia.us
III	Clark Marshall, Executive Director of Economic Development & Contin. Ed.	Iowa Lakes Community College 19 South 7 th Street Estherville, Iowa 51334	712/362-0431----800/242-5106 Fax #: 712/362-0480 cmarshall@iowalakes.edu
IV	Woody Grabenbauer Director of Business & Industry	Northwest Iowa Community College 603 West Park Street Sheldon, Iowa 51201	712/324-5066x110—800/352-4907 Fax #: 712/324-4136 woody@nwicc.edu
V	Carolyn Cochran Director of State Job Trng.	Iowa Central Community College 330 Avenue M Fort Dodge, Iowa 50501	515/576-0099x2317—800/362-2793 Fax #: 515/576-5656 cochran@triton.iccc.cc.ia.us
	Don McKee Training Coordinator	Same address as above	515/576-0099x2331--800/3622793 Fax #: 515/576-5656 mckee@triton.iccc.cc.ia.us
VI	Jacque Brandt, Assistant Dean of Economic Development & Trng. Progs.	Iowa Valley Community College District 3702 South Center Street Marshalltown, Iowa 50158	641/752-4645x334—866/622-4748 Fax #: 641/754-1342 jacque.brandt@iavalley.edu
VII	Alan Clausen, Director of Industrial Training & Development	Hawkeye Community College 1501 East Orange Road, Box 8015 Waterloo, Iowa 50704-8015	319/277-3806x403—800/670-4769 Fax #: 319/266-6772 aclausen@hawkeyecollege.edu
IX	Mark Kapfer	Eastern Iowa Community College District 306 West River Drive Davenport, Iowa 52801	563/336-3315----800/462-3255 Fax #: 563/336-3350 mkapfer@eicc.edu

Iowa's Economic Developers

Merged Area	Name	College	Telephone
X	Steve Ovel, Executive Director of Governmental Relations	Kirkwood Community College 6301 Kirkwood Blvd. SW, Box 2068 Cedar Rapids, Iowa 52406	319/398-5466----800/332-2055 Fax #: 319/398-5432 steve.ovel@kirkwood.edu
	Dee Baird	Same address as above	319/398-5886----800/332-2055 Fax #: 319/398-5432 dee.baird@kirkwood.edu
	Kim Johnson	KTOS Center 3375 Armar Drive Marion, Iowa 52302	319/398-5435----800/332-2055 Fax #: 319/398-5698 kim.johnson@kirkwood.edu
XI	Collette Saylor	Des Moines Area Community College 2006 South Ankeny Boulevard Ankeny, Iowa 50021	515/964-6267----800/362-2127 Fax #: 515/964-6206 casaylor@dmacc.edu
	Larry Grubisich	Same address as above	515/965-7064----800/362-2127 Fax #: 515/964-6206 lsgrubisich@dmacc.edu
XII	Gene Sokolowski	Western Iowa Tech Community College 4647 Stone Avenue, Box 5199 Sioux City, Iowa 51102-5199	712/274-8733x6419--800/352-4649 Fax #: 712/274-6429 sokolog@witcc.edu
XIII	Mark Stanley	Iowa Western Community College 2700 College Road, Box 4-C Council Bluffs, Iowa 51502-3004	712/325-3375----800/432-5852 Fax #: 712/325-3408 mstanley@iwcc.edu
	Nancy Maher	Same address as above	712/325-3705----800/432-5852 Fax #: 712/325-3408 nmaher@iwcc.edu
XIV	Thomas Lesan	Southwestern Community College 1501 West Townline Street Creston, Iowa 50801	641/782-1443----800/247-4023 Fax #: 641/782-3312 lesan@swcciowa.edu
XV	Jill Rossiter	Indian Hills Community College 651 Indian Hills Drive, Bldg. #17 Ottumwa, Iowa 52501	641/683-5182--800/726-2585x5182 Fax #: 641/683-5296 jrossite@indianhills.edu
XVI 4692	Chuck Betts, Executive Director of the Center for Business & Industry Services	Southeastern Community College 1500 West Agency Road, Box 180 West Burlington, Iowa 52655-0180	319/752-2731x8168--866/722- Fax #: 319/752-3407 cbetts@scciowa.edu
	Brenda Rubey	Same address as above	319/752-2731x8280--866/722-4692 Fax #: 319/752-3407 brubey@scciowa.edu
	Lance Coppock	Ahlers Cooney Dorweiler 100 Court, Suite 600 Des Moines, Iowa 50309	515/243-7611 Fax #: 515/243-2149 lcoppock@ahlerslaw.com

Iowa's Economic Developers

Merged Area	Name	College	Telephone
IACCT Office	Gene Gardner Executive Director	Iowa Association of Community College Trustees 707 East Locust Des Moines, Iowa 50309	515/282-4692 Fax #: 515/282-3743 iacct@prodigy.net
DE	Michelle Wendel, Consultant Economic Development	Department of Education Bureau of Community Colleges and Career & Technical Education Grimes State Office Bldg. Des Moines, Iowa 50319-0146	515/281-3671 Fax #: 515/281-6544 michelle.wendel@iowa.gov
IDED	Mary Lawyer Director	Department of Economic Development 200 East Grand Avenue Des Moines, Iowa 50319-0146	515/242-4849 Fax #: 515/242-4832 mary.lawyer@ided.state.ia.us
	Leanna Gerald 260E/260F	Same address as above	515/242-4867 Fax #: 515/242-4776 leanna.gerald@ided.state.ia.us
	Melanie Morgan 260F/ACE	Same address as above	515/242-4878 Fax #: 515/242-4776 melanie.morgan@ided.state.ia.us
Ruan Securities Corp	Gary Bauer	Ruan Securities Corp Equitable Bldg., Suite 317 604 Locust Des Moines, Iowa 50309	515/245-3879 800/642-5082 (c) 515/229-1241 Fax #: 515/247-2025 Fax #: 800/856-9434 gbauer@ruan.com

Program Name: Motor Vehicle Fuel Tax Credit

A. Code Citation(s):

Section 422.110, Code of Iowa 2005 Supplement (individual income tax).

B. Administrative Rules Citation(s):

701 IAC 42.6

C. Program Description Based on Code Language and Administrative Rules:

An income tax credit is allowed for the amount of Iowa motor fuel tax paid relating to certain purchases made by individuals and corporations. This credit is allowed for taxpayers who do not have a motor fuel refund permit. This credit has been in place since 1975.

D. Credit Award Mechanism:

Credits do not require an award. Taxpayers claim the credit, if eligible, on the individual income tax return.

E. Awarding Department Program Manager or Contact:

None

F. Taxes to which Credit Applies:

The Ethanol Blended Gasoline Credit applies to the Individual and Corporate Income taxes.

G. Certification Requirements:

None

H. Credit Limits (if any) and Proration Provisions:

None

I. Transferability Provisions:

Credits may not be sold or traded. Credits awarded to pass-through entities shall be claimed by the entity's owners based on share of the entity's income distributed to each owner.

J. Refundability Provisions:

The Motor Vehicle Fuel Tax Credit is refundable. Taxpayers may also elect to carry forward unused credits to the following year.

K. Claims Filing Requirements:

Taxpayers filing credit claims for the Motor Vehicle Fuel Tax Credit submit Form IA 4136 with the tax return on which the credit is claimed.

L. Performance Monitoring Requirements:

None

Program Name: New Capital Investment Program (NCIP)

A. Code Citation(s):

Section 15.381, Code of Iowa 2005, through Section 15.387, Code of Iowa 2005 (program description).

B. Administrative Rules Citation(s):

261 IAC 64

C. Program Description Based on Code Language and Administrative Rules:

The New Capital Investment Program, started in 2003, provides a package of tax credits and exemptions to businesses making a capital investment of at least \$1,000,000. As of July 1, 2005, the New Capital Investment Program was replaced by the High Quality Job Creation Program. Any awards made before July 1 will be honored until the NCIP contract expires.

Businesses participating in NCIP receive multiple tax incentives, including:

- Refunds of sales or use taxes paid to contractors or subcontractors during construction.
- A corporate tax credit for certain sales taxes paid by a third-party developer.
- An investment tax credit of up to 5% (based on the number and type of new jobs created) of the capital investment in machinery and equipment, land, buildings, and improvements to existing buildings. This Iowa tax credit may be carried forward for up to seven years until depleted.
- The State's Research Activities Credit may be doubled while the business is participating in the program.

In order to be eligible for NCIP benefits, a company must meet several requirements. The investment tax credit varies between one and five percent, based on the number of new high-quality jobs. To qualify as a high-quality job, new jobs must pay a starting wage of at least the average county wage. The company must also provide and pay at least 80% of the costs of a standard employee medical insurance plan for all full-time employees. The company must not close or significantly reduce operations elsewhere in Iowa in order to relocate the operation to the proposed community. Retail establishments are prohibited.

D. Credit Award Mechanism:

Credits are awarded based on application to the Department of Economic Development (DED).

E. Awarding Department Program Manager or Contact:

Amy Johnson

F. Taxes to which Credit Applies:

- Sales Tax Refund applies to the Sales and Use Tax.
- Third Party Sales Tax Credit applies to Corporate Income Tax.
- Investment Tax Credit applies to Corporate Income, Individual Income, Franchise and Insurance Premium Taxes.
- Additional Research Activities Credit applies to Corporate Income and Individual Income Taxes.

G. Certification Requirements:

The Third Party Sales Tax Credit requires the business to submit completed forms for the credit to DED, which then issues a tax credit certificate. The certificate is required to be attached to the taxpayer's return when claimed.

Companies with value-added agricultural and biotechnology projects may, upon successful completion of the project, request and receive certificates from DED for an unused Investment Tax Credit. The certificate will allow the taxpayer to receive a portion of the unused Investment Tax Credit in the form of a refund.

H. Credit Limits (if any) and Proration Provisions:

The refund of unused Investment Tax Credits for value-added agricultural and biotechnology projects is limited to \$4 million per fiscal year. Credits are prorated by DED among all applicants.

Warehouse and distribution center projects may receive a refund of sales taxes paid on racks, shelving and conveyor equipment. DED cannot issue more than \$500,000 of these refunds during a fiscal year. The refunds will be issued on a first-come, first-served basis. Taxpayers not receiving a refund due to \$500,000 limit will have their requests considered in the succeeding fiscal year.

I. Transferability Provisions:

Credits may not be sold or traded. For the Investment Tax Credit and Research Activities Credit, credits awarded to pass-through entities shall be claimed by the entity's owners based on the share of the entity's income distributed to each owner.

J. Refundability Provisions:

- Sales Tax Refund is refundable.
- Third Party Sales Tax Credit is refundable.

- Investment Tax Credit is generally not refundable. Investment Tax Credit may be refundable for value-added agricultural and biotechnology projects, subject to the cap of \$4 million per fiscal year. Any non-refundable credit in excess of tax liability may be carried forward for up to seven years.
- Additional Research Activities Credit is refundable.

K. Claims Filing Requirements:

The Sales Tax Refund requires filing Form 843. For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached. The Investment Tax Credit requires filing Form 3468 with the taxpayer's return, regardless of taxpayer type. The Additional Research Activities Credit requires filing Form 128 or Form 128A with the taxpayer's return, regardless of taxpayer type.

L. Performance Monitoring Requirements:

Businesses must certify that they are in compliance with the requirements of the agreement. Companies awarded credits agree to job creation, high-quality job creation, wage, and investment goals. The Business Services unit of the Department of Economic Development surveys companies every 6 months to assess progress toward meeting these goals.

Program Name: New Jobs and Income Program (NJIP)

A. Code Citation(s):

Section 15.326, Code of Iowa 2005, through Section 15.337, Code of Iowa 2005. (program description).

B. Administrative Rules Citation(s):

261 IAC 58

C. Program Description Based on Code Language and Administrative Rules:

The Iowa New Jobs and Income Program, started in 1994, provides a package of tax credits and exemptions to businesses making a capital investment of at least \$12,100,000 in CY 2005 and creating 50 or more jobs meeting wage and benefit targets within five years. As of July 1, 2005, the New Jobs and Income Program was replaced by the High Quality Job Creation Program. Any awards made before July 1 will be honored until the NJIP contract expires.

Businesses participating in NJIP receive multiple tax incentives, including:

- Local property tax exemptions for up to 20 years on the value added to the property.
- Supplemental withholding tax credits new employees. If applicable, these funds would be in addition to those authorized under the Iowa New Jobs Training Program.
- Refunds of sales or use taxes paid to contractors or subcontractors during construction and/or for racks, shelving and conveyor equipment used in warehouse/distribution center projects.
- A corporate tax credit for certain sales taxes paid by a third-party developer.
- An investment tax credit of up to 10% of the capital investment in machinery and equipment, land, buildings, and improvements to existing buildings. This Iowa tax credit may be carried forward for up to seven years until depleted.
- The State's Research Activities Credit may be doubled while the business is participating in the program.

A business is eligible for NJIP benefits if it:

- Pay a median starting wage of at least \$13.35 per hour in CY 2005 or 130% of the average county wage, whichever is higher. (Check with the IDED for the community's current wage requirement.)
- Provide and pay at least 80% of the costs of a standard employee medical and dental insurance plan for all full-time employees.
- Does not close or significantly reduce operations elsewhere in Iowa in order to relocate the operation to the proposed community.
- Is not a retail establishment.

Additionally, a participating company must meet at least three of the following criteria:

- Offer a pension or profit-sharing plan.
- Produce/manufacture value-added goods or services or belong to one of Iowa's "target" business segments: value-added agricultural products; insurance, financial services or telecommunications; plastics; metals; printing, paper or packaging products; pharmaceuticals; software development; instruments, measuring devices and medical instruments; and recycling and waste management.
- Make daycare services available.
- Annually invest no less than one percent of the Iowa facility's pretax profits in research and development.
- Have a productivity and safety improvement program in place.
- Annually invest not less than one percent of Iowa facility's pretax profits in worker training and skills enhancement.
- Occupy an existing vacant facility of at least 20,000 sq. ft.

D. Credit Award Mechanism:

Credits are awarded based on application to the Department of Economic Development (DED).

E. Awarding Department Program Manager or Contact:

Amy Johnson

F. Taxes to which Credit Applies:

- Local Property Tax Exemption applies to the Property Tax.
- Supplemental New Jobs Credit applies to the Withholding Tax.
- Sales Tax Refund applies to the Sales and Use Tax.
- Third Party Sales Tax Credit applies to Corporate Income Tax.
- Investment Tax Credit applies to Corporate Income, Individual Income, Franchise and Insurance Premium Taxes.
- Additional Research Activities Credit applies to Corporate Income and Individual Income Taxes.

G. Certification Requirements:

The Third Party Sales Tax Credit requires the business to submit completed forms for the credit to DED, which then issues a tax credit certificate. The certificate is required to be attached to the taxpayer's return when claimed.

Companies with value-added agricultural and biotechnology projects may, upon successful completion of the project, request and receive certificates from DED for an unused Investment Tax Credit. The certificate will allow the taxpayer to receive a portion of the unused Investment Tax Credit in the form of a refund.

H. Credit Limits (if any) and Proration Provisions:

The refund of unused Investment Tax Credits for value-added agricultural and biotechnology projects is limited to \$4 million per fiscal year. Credits are prorated by DED among all applicants.

Warehouse and distribution center projects may receive a refund of sales taxes paid on racks, shelving and conveyor equipment. DED cannot issue more than \$500,000 of these refunds during a fiscal year. The refunds will be issued on a first-come, first-served basis. Taxpayers not receiving a refund due to \$500,000 limit will have their requests considered in the succeeding fiscal year.

I. Transferability Provisions:

Credits may not be sold or traded. For the Investment Tax Credit and Research Activities Credit, credits awarded to pass-through entities shall be claimed by the entity's owners based on the share of the entity's income distributed to each owner.

J. Refundability Provisions:

- Local Property Tax Exemption is not refundable.
- Supplemental Withholding Tax Credit is not refundable.
- Sales Tax Refund is refundable.
- Third Party Sales Tax Credit is refundable or may be carried forward for up to seven years.
- Investment Tax Credit is generally not refundable. Investment Tax Credit may be refundable for value-added agricultural and biotechnology projects, subject to the cap of \$4 million per fiscal year. Any non-refundable credit in excess of tax liability may be carried forward for up to seven years.
- Additional Research Activities Credit is refundable.

K. Claims Filing Requirements:

Supplemental New Jobs Credit requires valid agreement with a Community College under Chapter 260E, Code of Iowa. The Sales Tax Refund requires filing Form 843. For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached. The Investment Tax Credit requires filing Form 3468 with the taxpayer's return, regardless of taxpayer type. The Additional Research Activities Credit requires filing Form 128 or Form 128A with the taxpayer's return, regardless of taxpayer type.

L. Performance Monitoring Requirements:

Companies awarded credits agree to job creation, job retention, wage, and investment goals. The Business Services unit of the Department of Economic Development surveys companies every 6 months to assess progress toward meeting these goals.

Program Name: Renewable Energy Tax Credit

A. Code Citation(s):

Section 476C, Code of Iowa Supplement 2005 (program description).
Section 422.11J, Code of Iowa Supplement 2005 (individual income tax).
Section 422.33(16), Code of Iowa Supplement 2005 (corporate income tax).
Section 422.60(8), Code of Iowa Supplement 2005 (franchise tax).
Section 432.12E, Code of Iowa Supplement 2005 (insurance premiums tax).
Section 423.4(4), Code of Iowa Supplement 2005 (sales and use tax).
Section 437A.17B, Code of Iowa Supplement 2005 (replacement tax).

B. Administrative Rules Citation(s):

199 IAC 15.18

C. Program Description Based on Code Language and Administrative Rules:

In tax years beginning on or after July 1, 2006, a renewable energy tax credit is available for a producer or purchaser of energy from an eligible renewable energy facility approved by the Iowa Utilities Board. A power-purchase agreement is signed between the purchaser and producer which sets forth which party will receive the tax credit.

A renewable energy facility includes a wind energy conversion facility, a biogas recovery facility, a biomass conversion facility, a methane gas recovery facility or a solar energy conversion facility. The facility must be located in Iowa and placed in service between July 1, 2005, and January 1, 2011. A producer or purchaser of renewable energy may receive renewable energy tax credit certificates for a ten-year period for each eligible renewable energy facility. Renewable energy tax credit certificates shall not be issued for renewable energy purchased after December 31, 2020.

Participants in the program receive renewable energy tax credits equal to \$0.015 per kilowatt-hour of electricity, or \$4.50 per million British thermal units of heat for a commercial purpose, or \$4.50 per million British thermal units of methane gas or other biogas used to generate electricity, or \$1.44 per one thousand standard cubic feet of hydrogen fuel generated by and purchased from an eligible renewable energy facility.

D. Credit Award Mechanism:

Facilities must be approved as eligible through an application to the Iowa Utilities Board and energy production and sales must be shown. Credits are awarded based on certificates issued by the Department of Revenue to the energy producer or purchaser so designated on the tax certificate.

E. Awarding Department Program Manager or Contact:

IUB Contact: Margaret Munson
Department of Revenue Contact: Jim McNulty

F. Taxes to which Credit Applies:

The Renewable Energy Tax Credit applies to one of the following taxes, based on applicability to the taxpayer: Corporate Income, Individual Income, Franchise, Insurance Premiums, Sales and Use, and Replacement Taxes. Each tax credit certificate must specify one tax toward which it may be applied.

G. Certification Requirements:

The purchaser or producer will notify the Utilities Board of the amount of eligible renewable energy generated and purchased, and the Utilities Board will then notify the Department of Revenue. The Department of Revenue will issue tax credit certificates to the purchaser or producer setting forth the amount of tax credit. The tax credit certificate must be attached to the taxpayer's tax return for the year in which it is used. The certificate must contain the taxpayer's name, address, tax identification number, the type of tax for which the credit will be applied, and the amount of tax credits. Once the certificate is issued, it can't be terminated or rescinded. For a partnership, limited-liability company, S-corporation, estate, trust, or other reporting entity seeking to claim credits on the personal income or corporate income tax, certificates are issued to equity owners or their beneficiaries on the pro-rated share of the income of the entity. For such entities seeking to claim credits on the franchise, insurance premiums, sales and use, or replacement tax, certificates are issued directly to the partnership, limited-liability company, S-corporation, estate, trust, or other reporting entity.

H. Credit Limits (if any) and Proration Provisions:

Credits are not directly limited. However, there is an indirect cap because the maximum amount of nameplate generating capacity is limited to 100 megawatts (90 megawatts for wind energy conversion facilities and 10 megawatts for all other facilities). A single eligible facility cannot have more than 2.5 megawatts of nameplate generating capacity. Facility eligibility designations are granted on a first-come, first-served basis.

I. Transferability Provisions:

The tax credit certificate may be transferred once to any person or entity. However, the initial decision on whether the purchaser or producer is entitled to the tax credit certificate does not count as a transfer. Within thirty days of transfer, the transferee must submit the transferred tax credit certificate to the Department of Revenue. The Department of Revenue then has thirty days to issue a replacement tax credit certificate to the transferee. Any consideration received for the transfer of the tax credit shall not be included in income for Iowa tax purposes, and any consideration paid for the transfer of the tax credit shall not be deductible for Iowa tax purposes.

Credits awarded to pass-through entities shall be claimed by the entity's owners based on the share of the entity's income distributed to each owner. This pass-through does not count as the one transfer allowed.

J. Refundability Provisions:

Credits are not refundable. Unused credits can be carried forward for up to seven years.

K. Claims Filing Requirements:

The credit can only be taken in tax years beginning on or after July 1, 2006. Renewable energy tax credit certificates shall not be issued for renewable energy purchased after December 31, 2020. For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached. For Sales and Use Tax Refund, Form 843 must be filed.

L. Performance Monitoring Requirements:

IUB will need to monitor whether facilities are operational 18 months or less after approval. The Board will also need to monitor and approve requests for credits for up to ten years from the date the purchaser first purchases energy from the eligible facility. IUB and IDR are expected to develop a system for the registration of certificates issued or transferred to permit verification that tax credits claimed are valid and that transfers follow legal requirements.

Program Name: Research Activities Credit

A. Code Citation(s):

Section 422.10, Code of Iowa (credit on personal income tax).

Section 422.33(5), Code of Iowa (credit on corporate income tax).

Section 15.335, Code of Iowa (credit under New Jobs and Income Program, New Capital Investment Program and the High Quality Job Creation Program).

Section 15A.9(8), Code of Iowa (credit under Quality Jobs Enterprise Zone Program, which is only for one taxpayer).

Section 15E.196(4) (credit under Enterprise Zone Program)

B. Administrative Rules Citation(s):

701 IAC 42.2(6), 42.2(11), 42.19(1)

701 IAC 52.7, 52.10(3), 52.14, 52.22(1)

C. Program Description Based on Code Language and Administrative Rules:

Starting in 1985, a credit is available for 6 ½% of Iowa's apportioned share of qualifying expenditures for increasing research activities. The Iowa research credit is based on the federal research activities credit, with the Iowa credit based on the ratio of Iowa research expenditures over total research expenditures. The credit is refundable.

Starting in 2000, taxpayers can elect to take the alternative incremental research credit in a manner consistent with the federal alternative incremental research credit. Taxpayer can elect each year whether to take the alternative credit or the "regular" research credit for Iowa tax purposes.

Taxpayers who are approved by the Iowa Department of Economic Development under the New Jobs and Income Program, the New Capital Investment Program or the Enterprise Zone program receive a double credit. The research credit can also be doubled under the High Quality Job Creation Program for taxpayers approved by the Department of Economic Development if certain criteria are met.

Effective July 1, 2005, an additional \$1 million in research activities credit is available for expenses related to the development and deployment of innovative renewable energy generation components manufactured or assembled in Iowa. These expenses are not eligible for the federal research activities credit. A business eligible for this credit must be approved by the Department of Economic Development. This additional \$1 million is only available for the doubled portion of the R & D credit for businesses approved under the Enterprise Zone Program or the High Quality Job Creation Program.

D. Credit Award Mechanism:

The standard Research Activities Credit does not require any award to claim. However, for businesses claiming the double credit under the New Jobs and Income Program, the Enterprise Zone Program, the

New Capital Investment Program, or the High Quality Job Creation Program, the credit is awarded based on application to the Department of Economic Development. Approval from DED under the Enterprise Zone Program or the High Quality Job Creation Program is also required for the additional \$1 million renewable energy research activities credit.

E. Awarding Department Program Manager or Contact:

For DED programs, Amy Johnson.

F. Taxes to which Credit Applies:

The Research Activities Credit applies to Corporate Income and Individual Income taxes.

G. Certification Requirements:

There are no certificates for the Research Activities Credit.

H. Credit Limits (if any) and Proration Provisions:

There are generally no limits on the Research Activities Credit. The only exception is the \$1 million limit on Research Activities Credit available for expenses related to the development and deployment of innovative renewable energy generation components manufactured or assembled in Iowa. Credits are granted for this \$1 million on a first-come, first served basis.

I. Transferability Provisions:

Credits awarded to pass-through entities shall be claimed by the entity's owners based on the share of the entity's income distributed to each owner.

J. Refundability Provisions:

The credit is refundable.

K. Claims Filing Requirements:

For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached. All taxpayers are required to file Form IA 128 or Form 128A with their claim for the Research Activities Credit.

L. Performance Monitoring Requirements:

Businesses that receive the double Research Activities Credit as a result of their participation in DED's New Jobs and Income Program, New Capital Investment Program, Enterprise Zone Program, or the High Quality Job Creation Program are subject to performance monitoring requirements of the respective program. There are no performance monitoring requirements for taxpayers that claim the general credit.

Program Name: S Corporation Tax Credit

A. Code Citation(s):

Section 422.8(2)(b), Code of Iowa Supplement 2005 (individual income tax).

B. Administrative Rules Citation(s):

701 IAC 50.

C. Program Description Based on Code Language and Administrative Rules:

Starting in 1998, individual resident shareholders of S corporations which conduct business within and without Iowa can claim a tax credit. The credit is structured so that the S corporation is taxed on the greater of income attributable to Iowa under the single sales factor or actual distributions by the S corporation less federal income tax. The intent is to treat S corporations similar to C corporations who are entitled to apportion income within and without Iowa.

D. Credit Award Mechanism:

Credits do not require an award. Taxpayers claim the credit, if eligible, on the individual income tax return.

E. Awarding Department Program Manager or Contact:

None

F. Taxes to which Credit Applies:

The S Corporation Tax Credit Applies to the Individual Income Tax.

G. Certification Requirements:

None

H. Credit Limits (if any) and Proration Provisions:

None

I. Transferability Provisions:

Credits may not be sold or traded.

J. Refundability Provisions:

The S Corporation Tax Credit is not refundable. Unused credits do not carry forward to the following year.

K. Claims Filing Requirements:

Taxpayers are required to attach Form IA 134 to the tax return on which the S Corporation Credit is claimed.

L. Performance Monitoring Requirements:

None

Program Name: Soy-Based Cutting Tool Oil Tax Credit

A. Code Citation(s):

Section 422.11K, Code of Iowa 2005 Supplement (individual income tax).
Section 422.33(17), Code of Iowa 2005 Supplement (corporate income tax).

B. Administrative Rules Citation(s):

701 IAC 42.21 and 52.24, which will become effective on November 16, 2005.

C. Program Description Based on Code Language and Administrative Rules:

A manufacturer is eligible to take a credit equal to the costs incurred for the purchase and replacement costs relating to the transition from using nonsoy-based cutting tool oil to using soy-based cutting tool oil. The costs must be incurred after June 30, 2005, and before January 1, 2007, and the costs must be incurred during the first twelve months of transition. This affects tax years ending after June 30, 2005, and beginning before January 1, 2007. The costs cannot exceed \$2 dollars per gallon, and the number of gallons eligible for the credit cannot exceed 2,000 gallons.

D. Credit Award Mechanism:

Credits do not require an award. Taxpayers claim the credit, if eligible, on the individual or corporate income tax return.

E. Awarding Department Program Manager or Contact:

None

F. Taxes to which Credit Applies:

The Soy-Based Cutting Tool Oil Tax Credit applies to the Corporate Income and Individual Income Tax.

G. Certification Requirements:

None

H. Credit Limits (if any) and Proration Provisions:

None

I. Transferability Provisions:

Credits may not be sold or traded. Credits awarded to pass-through entities shall be claimed by the entity's owners based on share of the entity's income distributed to each owner.

J. Refundability Provisions:

Credit is refundable. Any credit in excess of the tax liability can also be carried forward to the next tax year.

K. Claims Filing Requirements:

For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached.

L. Performance Monitoring Requirements:

None

Program Name: Tuition and Textbook Tax Credit

A. Code Citation(s):

Section 422.12(2), Code of Iowa Supplement 2005 (individual income tax).

B. Administrative Rules Citation(s):

701 IAC 42.22.

C. Program Description Based on Code Language and Administrative Rules:

This credit is available to individual taxpayers who have one or more dependents attending grades K-12 in an Iowa school. The credit percentage is 25% of the first \$1,000 paid for each dependent for tuition and textbooks for tax years beginning on or after January 1, 1998.

D. Credit Award Mechanism:

Credits do not require an award. Taxpayers claim the credit, if eligible, on the individual income tax return.

E. Awarding Department Program Manager or Contact:

None

F. Taxes to which Credit Applies:

The Tuition and Textbook Tax Credit Applies to the Individual Income Tax.

G. Certification Requirements:

None

H. Credit Limits (if any) and Proration Provisions:

None

I. Transferability Provisions:

Credits may not be sold or traded. Credits awarded to married taxpayers who elect to file separately on a combined return, the early childhood development tax credit shall be prorated to each spouse in the proportion that each spouse's respective net income bears to the total combined net income.

J. Refundability Provisions:

The Tuition and Textbook Tax Credit is not refundable. Unused credits may not be carried forward.

K. Claims Filing Requirements:

None

L. Performance Monitoring Requirements:

None

Program Name: Contingent Tax Credit for Investments in Iowa Fund of Funds

A. Code Citation(s):

Section 15E.66, Code of Iowa (tax credit description)

B. Administrative Rules Citation(s):

123 IAC 4
701 IAC 42.18(3), 52.21(3), 58.11(3)

C. Program Description Based on Code Language and Administrative Rules:

Starting in 2002, a contingent tax credit is allowed for investments made into the Iowa fund of funds. The tax credit is only allowed to the extent that the actual rate of return on these investments does not meet the rate of return guaranteed to investors. The Iowa fund of funds will make investments in venture capital funds who make a commitment to consider investments in businesses located in Iowa.

Credits are awarded only when investors present mature investment certificates and the board certifies that the return is lower than the guaranteed rate of return. Then, the board will issue a tax credit certificate for the difference between the actual rate of return and the guaranteed rate of return.

D. Credit Award Mechanism:

Credits are awarded based on application to the Iowa Capital Investment Board (staffed by the Department of Revenue).

E. Awarding Department Program Manager or Contact:

Jim McNulty, Iowa Department of Revenue

F. Taxes to which Credit Applies:

The Contingent Tax Credit for Investments in the Iowa Fund of Funds applies to Corporate Income, Individual Income, Franchise, Insurance Premium, and Moneys and Credits taxes.

G. Certification Requirements:

Taxpayers claiming the credit are required to attach the tax credit certificate to their return.

H. Credit Limits (if any) and Proration Provisions:

The contingent tax credits are capped at \$100 million in the aggregate, and only \$20 million of credits can be claimed in one year. Credits are awarded on a first-come, first-served basis.

I. Transferability Provisions:

The tax credit is transferable. There are no limits. The certificate holder must surrender the certificate and a request to transfer the certificate, along with the name, address, and taxpayer identification number of the transferee to the Iowa Capital Investment Board. The board then issues a replacement certificate within ten days.

Credits awarded to pass-through entities shall be claimed by the entity's owners based on the share of the entity's income distributed to each owner.

J. Refundability Provisions:

The credit is not refundable. Credits in excess of tax liability can be carried forward for up to seven years.

K. Claims Filing Requirements:

The tax credit cannot be claimed until after the maturity date noted on the certificate. If the credit exceeds tax liability, the remaining credit can be carried forward for seven years. For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached.

L. Performance Monitoring Requirements:

None

Program Name: Investments in Qualifying Businesses and Community-Based Seed Capital Funds—Tax Credit

A. Code Citation(s):

Section 15E.43, Code of Iowa (tax credit description)
Section 422.11F, Code of Iowa (individual income tax)
Section 422.33(12), Code of Iowa (corporate income tax)
Section 422.60(5), Code of Iowa (franchise tax)
Section 432.12C, Code of Iowa (insurance premiums tax)
Section 533.24(3), Code of Iowa (moneys and credits tax)

B. Administrative Rules Citation(s):

123 IAC 2
701 IAC 42.18(1), 52.21(1), 58.11(1)

C. Program Description Based on Code Language and Administrative Rules:

Starting in 2002, a tax credit is allowed for 20% of the equity investment made into a qualifying business or community-based seed capital fund approved by the Iowa Capital Investment Board. This credit is focused on “angel investors” who make investments in start-up companies. Investors must apply to the Iowa Capital Investment Board within 120 days of the initial investment.

D. Credit Award Mechanism:

Credits are awarded based on application to the Iowa Capital Investment Board (staffed by the Department of Revenue).

E. Awarding Department Program Manager or Contact:

Jim McNulty, Iowa Department of Revenue

F. Taxes to which Credit Applies:

The Investment Tax Credit for Investments in Qualifying Businesses and Community-Based Seed Capital Funds applies to Corporate Income, Individual Income, Franchise, Insurance Premium, and Moneys and Credits taxes.

G. Certification Requirements:

Taxpayers claiming the credit are required to attach the tax credit certificate to their return.

H. Credit Limits (if any) and Proration Provisions:

The credits are capped in the aggregate at \$3 million for investments made in 2002, \$3 million for investments made in 2003 and \$4 million for investments made in 2004. Only \$1.8 million in total credits were claimed through June 30, 2005. Credits can be claimed after June 30, 2005 until the total cap of \$10 million is reached. Credits are awarded on a first-come, first-served basis.

I. Transferability Provisions:

Credits awarded to pass-through entities shall be claimed by the entity's owners based on the share of the entity's income distributed to each owner.

J. Refundability Provisions:

The credit is not refundable. Any credit in excess of tax liability may be carried forward for up to five years.

K. Claims Filing Requirements:

The tax credit cannot be claimed until 3 years after the investment is made, so investors who made investments in 2002 cannot claim the tax credit until the 2005 tax return. For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached.

L. Performance Monitoring Requirements:

The Iowa Capital Investment Board is required to publish an annual report with credit activity, including a listing of eligible qualifying businesses and the number of tax credit certificates and the amount of tax credits issued.

Program Name: Venture Capital Fund Investments—Tax Credit

A. Code Citation(s):

Section 15E.51, Code of Iowa (tax credit description)
Section 422.11G, Code of Iowa (individual income tax)
Section 422.33(13), Code of Iowa (corporate income tax)
Section 422.60(6), Code of Iowa (franchise tax)
Section 432.12B, Code of Iowa (insurance premiums tax)
Section 533.24(4), Code of Iowa (moneys and credits tax)

B. Administrative Rules Citation(s):

123 IAC 3
701 IAC 42.18(2), 52.21(2), 58.11(2)

C. Program Description Based on Code Language and Administrative Rules:

Starting in 2002, a tax credit is allowed for 6% of the equity investment made in a venture capital fund approved by the Iowa Capital Investment Board. Investors must apply to the Iowa Capital Investment Board by March 31 of the year following the date of the initial investment.

D. Credit Award Mechanism:

Credits are awarded based on application to the Iowa Capital Investment Board (staffed by the Department of Revenue).

E. Awarding Department Program Manager or Contact:

Jim McNulty, Iowa Department of Revenue

F. Taxes to which Credit Applies:

The Investment Tax Credit for Venture Capital Fund Investments applies to Corporate Income, Individual Income, Franchise, Insurance Premium, and Moneys and Credits taxes.

G. Certification Requirements:

Taxpayers claiming the credit are required to attach the tax credit certificate to their return.

H. Credit Limits (if any) and Proration Provisions:

The credits are capped in the aggregate at \$5 million. Credits are awarded on a first-come, first-served basis.

I. Transferability Provisions:

Credits awarded to pass-through entities shall be claimed by the entity's owners based on the share of the entity's income distributed to each owner.

J. Refundability Provisions:

The credit is not refundable. Any credit in excess of tax liability may be carried forward for up to five years.

K. Claims Filing Requirements:

The tax credit cannot be claimed until 3 years after the investment is made, so investors who made investments in 2002 cannot claim the tax credit until the 2005 tax return. For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached.

L. Performance Monitoring Requirements:

The Iowa Capital Investment Board is required to publish an annual report with credit activity, including a listing of eligible qualifying businesses and the number of tax credit certificates and the amount of tax credits issued.

Program Name: Wage-Benefit Tax Credit

A. Code Citation(s):

Section 15H.1, Code of Iowa Supplement 2005, through Section 15H.5, Code of Iowa Supplement 2005 (program description).

Section 422.11L, Code of Iowa Supplement 2005 (individual income tax).

Section 422.33(18), Code of Iowa Supplement 2005 (corporate income tax).

Section 422.60(10), Code of Iowa Supplement 2005 (franchise tax).

B. Administrative Rules Citation(s):

Rules have not yet been promulgated.

C. Program Description Based on Code Language and Administrative Rules:

For new jobs created on or after June 9, 2005, a wage-benefit tax credit is available to non-retail, non-services businesses which create new jobs related to the location or expansion of a business in Iowa. The credit is effective in tax years ending on or after June 9, 2006. If the annual wage and benefits equals at least 130% of the average county wage, but less than 160%, the tax credit equals 5% of the wages and benefits paid. If the annual wage and benefits is 160% or greater of the average county wage, the tax credit equals 10% of the wages and benefits paid. If the business retains the job, the tax credit will be allowed for the subsequent four years. Companies that receive Wage-Benefit Tax Credits are not eligible to receive benefits from the Iowa Grow Values Fund or the High Quality Job Creation Program, both of which are administered by the Iowa Department of Economic Development. The program is only open to nonretail, nonservice businesses.

D. Credit Award Mechanism:

Credits are awarded based on application to the Iowa Department of Revenue (IDR).

E. Awarding Department Program Manager or Contact:

Jim McNulty

F. Taxes to which Credit Applies:

The Wage-Benefit Tax Credit Applies to the Corporate Income, Individual Income, Franchise, Insurance Premiums, and Moneys and Credits Taxes.

G. Certification Requirements:

Tax credit certificates are issued to applicants determined to be eligible for the credit by IDR. The tax credit certificate must be attached to the taxpayer's return when the credit is claimed. The tax credit certificate shall identify the business claiming the tax credit and the wage and benefit costs incurred during the previous twelve months. The tax credit certificate shall contain the taxpayer's name, address, tax identification number, the date of the qualified new job, the amount of credit, and other information required by the department.

H. Credit Limits (if any) and Proration Provisions:

The total amount of credits awarded per fiscal year is limited to \$10 million. The credits are issued on a "first-come, first-serve" basis.

I. Transferability Provisions:

Credits may not be sold or traded. Credits awarded to pass-through entities shall be claimed by the entity's owners based on share of the entity's income distributed to each owner.

J. Refundability Provisions:

The Wage-Benefit Tax Credit is refundable.

K. Claims Filing Requirements:

For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached.

L. Performance Monitoring Requirements:

According to Section 15H.4, Code of Iowa, IDR shall develop definitions for the terms "job creation" and "job retention" to measure and identify the number of permanent, full-time positions which businesses actually create and retain and which can be documented by comparison of the payroll reports during the twenty-four month period before and after tax credits are earned.

Program Name: Wind Energy Production Tax Credit

A. Code Citation(s):

Section 476B, Code of Iowa Supplement 2005 (program description).
Section 422.11J, Code of Iowa Supplement 2005 (individual income tax).
Section 422.33(16), Code of Iowa Supplement 2005 (corporate income tax).
Section 422.60(8), Code of Iowa Supplement 2005 (franchise tax).
Section 432.12E, Code of Iowa Supplement 2005 (insurance premiums tax).

B. Administrative Rules Citation(s):

199 IAC 15.18

C. Program Description Based on Code Language and Administrative Rules:

An electrical production facility that produces electricity from wind that is placed in service on or after July 1, 2005, and before July 1, 2008; is approved by the local board of supervisors and the Iowa Utilities Board; and has a tax credit certificate issued by the Department of Revenue can claim a tax credit. The credit is equal to \$0.01 per kilowatt-hour of electricity sold. Credits are available for a ten-year period from the initial in-service date of the facility. Facilities must be in service within 18 months of their designation as an eligible facility or the eligibility will be revoked.

D. Credit Award Mechanism:

Facilities must be approved as eligible through an application to the Iowa Utilities Board and energy production and sales must be shown. Credits are awarded based on certificates issued by the Department of Revenue to the energy producer or purchaser so designated on the tax certificate.

E. Awarding Department Program Manager or Contact:

IUB Contact: Margaret Munson
IDR Contact: Jim McNulty

F. Taxes to which Credit Applies:

The Wind Energy Production Tax Credit applies to Corporate Income, Individual Income, Franchise and Insurance Premium Taxes.

G. Certification Requirements:

The purchaser or producer will notify the Utilities Board of the amount of eligible renewable energy generated and purchased, and the Utilities Board will then notify the Department of Revenue. The Department of Revenue will issue tax credit certificates to the purchaser or producer setting forth the amount of tax credit. The tax credit certificate must be attached to the taxpayer's tax return for the year in which it is used. The certificate must contain the taxpayer's name, address, tax identification number, the amount of tax credits, the first tax year the certificates may be used, and the expiration date of the certificate.

H. Credit Limits (if any) and Proration Provisions:

Credits are not directly limited. However, there is an indirect cap because capacity eligible for the credit is limited to 450 megawatts in aggregate. Facility eligibility designations are granted on a first-come, first-served basis.

I. Transferability Provisions:

The tax credit certificate may be transferred once to any person or entity. Within thirty days of transfer, the transferee must submit the transferred tax credit certificate to the Department of Revenue. The Department of Revenue then has thirty days to issue a replacement tax credit certificate to the transferee. Any consideration received for the transfer of the tax credit shall not be included in income for Iowa tax purposes, and any consideration paid for the transfer of the tax credit shall not be deductible for Iowa tax purposes.

Credits awarded to pass-through entities shall be claimed by the entity's owners based on the share of the entity's income distributed to each owner. This pass-through does not count as the one transfer allowed.

J. Refundability Provisions:

The credit is not refundable. Any credit in excess of tax liability may be carried forward for up to seven years.

K. Claims Filing Requirements:

The credit cannot be used for a tax year beginning prior to July 1, 2006. For taxpayers filing corporate income tax returns or franchise tax returns, Schedule C1 must be attached.

L. Performance Monitoring Requirements:

IUB and IDR are expected to develop a system for the registration of certificates issued or transferred to permit verification that tax credits claimed are valid and that transfers follow legal requirements.

Appendix C--Credit Features Matrix

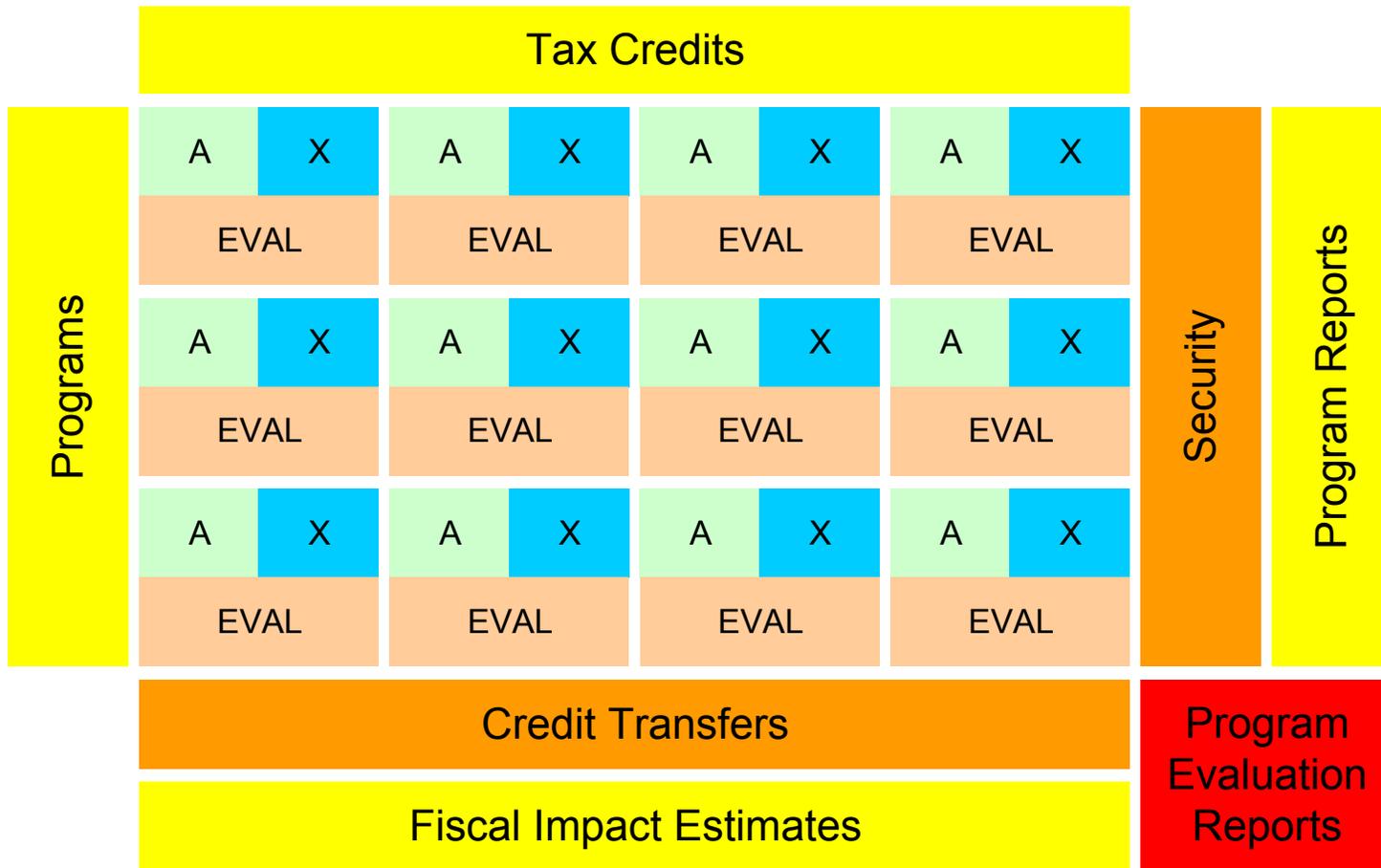
Credit	Program(s)	Usage Type	Awarded by:	Capped	Refund	Transfer	PassThru	Tax Taken Against:	Carry forward	Notes
ACE Program Job Credits From Withholding	ACE Program	Awarded	Community Colleges	Yes	No	No	No	W	No	Sponsoring employers allowed to divert portion of withholding taxes. Capped at \$6 million in FY06.
Assistive Device Credit	Assistive Device Credit	Awarded	DED	Yes	Yes	No	Yes	C,I	1 year	Capped at \$500,000 in FY06.
Child and Dependent Care Credit	Child and Dependent Care Credit	Automatic	NA	No	Yes	No	No	I	1 year	
Cow-Calf Credit	Cow-Calf Credit	Automatic	NA	Yes	Yes	No	Yes	C,I	No	Capped at \$1,770,342 for claims in February 2006.
Early Childhood Development Tax Credit	Early Childhood Development Tax Credit	Awarded	Revenue	Yes	Yes	No	No	I	1 year	Capped at \$2.5 million in FY06.
Earned Income Credit	Earned Income Credit	Automatic	NA	No	No	No	No	I	No	
Economic Development Region Revolving Loan Fund Tax Credit	Economic Development Region Revolving Loan Fund Tax Credit	Awarded	DED	Yes	No	No	Yes	C,I,F,N,M	10 years	Capped at \$2 million in FY06. Unused amounts carried forward into next year.
Endow Iowa Tax Credit	Endow Iowa Tax Credit	Awarded	DED	Yes	No	No	Yes	C,I,F,N,M	5 years	Capped at \$2 million in FY06.
Ethanol Blended Gasoline Credit	Ethanol Blended Gasoline Credit	Automatic	NA	No	Yes	No	Yes	C,I	1 year	
Historic Preservation & CED Tax Credit	Historic Preservation & CED Tax Credit	Awarded	DCA	Yes	Yes	Yes	Yes	C,I,F,N	No	Refund is at a discount rate. Capped at \$4 million for projects in Cultural and Entertainment Districts and \$2.4 million for projects not in a CED in FY06.
Housing Assistance Credit From Withholding	EZ	Awarded	DED	No	No	No	No	W	No	
Housing Investment Tax Credit	EZ	Awarded	DED	No	No	Yes	Yes	C,I,F,N	7 years	
Investment Tax Credit (ITC)	NJIP, NCIP, HQJCP, EZ	Awarded	DED	No	Mixed	No	Yes	C,I,F,N	7 years	Up to \$4 million per year may be refunded for value added agricultural projects.
Iowa New Jobs Credit	INJTP	Awarded	Community Colleges	No	No	No	Yes	C,I	10 years	
Local Property Tax Exemption	NJIP, HQJCP, EZ	Awarded	DED	No	No	No	No	P	No	
Motor Vehicle Fuel Tax Credit	Motor Vehicle Fuel Tax Credit	Automatic	NA	No	Yes	No	Yes	C,I	1 year	

Appendix C--Credit Features Matrix

Credit	Program(s)	Usage Type	Awarded by:	Capped	Refund	Transfer	PassThru	Tax Taken Against:	Carry forward	Notes
New Jobs Credit from Withholding	INJTP	Awarded	Community Colleges	No	No	No	No	W	No	
Renewable Energy Tax Credit	Renewable Energy Tax Credit	Awarded	IUB	Yes	No	Yes	Yes	C,I,F,N,S,R	7 years	Credits are indirectly capped by 100 MW limit (90 for wind and 10 for other).
Research Activities Credit (double)	NJIP, NCIP, HQJCP, EZ	Awarded	DED	No	Yes	No	Yes	C,I	1 year	
Research Activities Credit (regular)	Research Activities Credit (regular)	Automatic	NA	No	Yes	No	Yes	C,I	1 year	
S Corporation Credit	S Corporation Credit	Automatic	NA	No	No	No	No	I	No	
Sales and Use Tax Refund	NJIP, NCIP, HQJCP, EZ	Awarded	DED	No	Yes	No	No	S	No	
Soy-Based Cutting Tool Oil Credit	Soy-Based Cutting Tool Oil Credit	Automatic	NA	No	Yes	No	Yes	C,I	1 year	
Supplemental New Jobs Credit from Withholding	INJTP	Awarded	Community Colleges	No	No	No	No	W	No	
Tax Increment Financing (TIF)	INJTP	Awarded	Community Colleges	No	No	No	No	P	No	
Third Party Sales Tax Credit	NJIP, NCIP, HQJCP	Awarded	DED	Mixed	Yes	No	No	C	7 years	Credit on racks and shelving is limited to \$500,000 per fiscal year, in aggregate.
Tuition and Textbook Credit	Tuition and Textbook Credit	Automatic	NA	No	No	No	No	I	No	
Venture Capital Credit--contingent credit for investments in IA fund of funds)	Venture Capital Credit--contingent credit for investments in IA fund of funds)	Awarded	Iowa Capital Investment Board (ICIB)	Yes	No	Yes	Yes	C,I,F,N,M	7 years	Only applies if fund doesn't meet guaranteed rate of return. Capped at \$20 million of claims in any one year.
Venture Capital Credit--investments in seed capital funds	Venture Capital Credit--investments in seed capital funds	Awarded	Iowa Capital Investment Board (ICIB)	Yes	No	No	Yes	C,I,F,N,M	5 years	Credits may be claimed until aggregate \$10 million cap is reached.
Venture Capital Credit--investments in venture capital funds	Venture Capital Credit--investments in venture capital funds	Awarded	Iowa Capital Investment Board (ICIB)	Yes	No	No	Yes	C,I,F,N,M	5 years	Credits may be claimed until aggregate \$5 million cap is reached.
Wage-Benefit Tax Credit	Wage-Benefit Tax Credit	Awarded	Revenue	Yes	Yes	No	Yes	C,I,F,N,M	1 year	Credits is capped at \$10 million per fiscal year.
Wind Energy Production Tax Credit	Wind Energy Production Tax Credit	Awarded	IUB/Supervisors	Yes	No	Yes	Yes	C,I,F,N	7 years	Credit is indirectly capped because only 450 MW of total capacity is eligible.

NOTE: For Tax Taken Against, W=Withholding, C=Corporate Income, I=Individual Income, F=Franchise, N=Insurance Premiums, M=Moneys and Credits, P=Property, S=Sales, and R=Replacement.

Tax Credits System Database Diagram



Notes:

- A := awards data
- X := credit exercise data
- EVAL := evaluation and monitoring data

Appendix E—System Development Timeline

